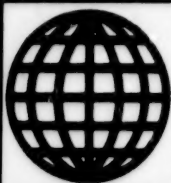


JPRS-CAR-88-046  
16 AUGUST 1988



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# ***JPRS Report***

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# **China**

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# China

JPRS-CAR-88-046

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16 AUGUST 1988

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## NATIONAL AFFAIRS, POLICY

### Commodity Price Conditions

40060353 Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 3, 20 Mar 88 p 15

[Article by Cheng Zhiping 6134 5268 1627, presented 9 January 1988 at the second session of the second annual meeting of the China Price Institute: "Initial Analysis of 1987 Commodity Price Conditions"]

[Text] For the reader's reference, I shall report on certain conditions, and bring up, in passing, several issues which I recommend be studied. All of these are my personal, tentative opinions, and I welcome the reader's criticism of improper points.

### 1987 Commodity Price Conditions

The nationwide economic situation was extremely good in 1987. The gross national product showed a 9.4 percent increase over the previous year, while the gross value of agricultural output showed an increase of more than 4.7 percent over the previous year. Gross grain output exceeded 800 billion jin, about 20 billion jin more than 1986; the gross output of cotton exceeded 4 billion kilograms, over 500 million kilograms more than 1986; and the output of all major agricultural products, such as fuel, fruit, flue-cured tobacco, marine products, and the like, showed increases over the previous year. The 1987 nationwide gross value of industrial output showed an increase of about 14.6 percent over the 1986 figure; light and heavy industry each account for about half of this, so that the proportional relationship is roughly coordinated. Raw coal output exceeded 900 million tons, electric power production approached 500 billion kilowatt-hours, and steel output exceeded 56 million tons, all rising to a new level. Industrial enterprise contracting reached 75 percent of the national budget, and realized profits tax increased about 10 percent over the previous year. Last year's foreign exports showed a marked increase over 1986, and unnecessary imports were controlled; additionally, non-trade foreign exchange revenue and the national foreign exchange inventory showed a relatively large increase. Last year's total retail sales of social commodities showed an increase of about 17.6 percent over the 1986 figure; the actual increase, after deducting the amount of the price hike, was over 9.6 percent. Urban and rural markets are flourishing, with brisk buying and selling. The most conspicuous problem in economic life last year was the excessive rise in prices; the total nationwide retail sales price index for the period January-November showed an increase of 7.1 percent over the same period of 1986, while the increase for the entire year was 7.3 percent, exceeding the control target of under 6 percent put forth at the beginning of the year. Large and medium-sized cities showed an even bigger increase. The retail price increase for the nation's 29 large and medium-sized cities at the provincial capital level and above is estimated to have risen about 9.7

percent, with prices rising higher in coastal cities than in inland cities. The effect was relatively strong on residents of cities and townships.

Below, we shall analyze last year's price conditions with respect to three aspects.

### A. The Major Causes of the Excessive Price Increase

Many different opinions about this issue are expressed in various quarters. My personal, tentative opinion is that, generally speaking, it can be attributed to four causes.

1. The principal cause of the excessive price increase was that food production did not meet consumer demand. Last year the disparity between production of meat and vegetables and consumer demand increased, and the price increase was relatively large. Although grain output has grown in recent years, it has not yet returned to the 1984 level, and the large volume of corn exports in 1986 further increased the disparity between supply and demand of grain. Last autumn grain prices unexpectedly increased after harvesting, setting off a series of product price increases. Naturally, the problem of pork and vegetables also has work-related causes. The difficulty of selling pigs in the past few years has affected the enthusiasm of the masses toward raising pigs. Lowest safeguard price measures were not implemented well enough, for lack of means. Some cities believed that the vegetable issue was already basically resolved, but their estimates were overly optimistic; vegetable prices were too low, affecting the peasants' enthusiasm for production. The number of vegetable gardens decreased, and the "vegetable basket" price naturally could not be stabilized. Last year's weather was irregular. The south was waterlogged, the west was dry, the north had a spring cold spell, and in the east the frost came early. Moreover, the irrigations works in the suburbs of some cities were out of repair, seriously affecting vegetable production and setting off a rise in prices. Generally speaking, the issue of non-staple food prices is related to nature, land, and people. "Nature" refers to natural calamities. "Land" refers to planted areas; in some places, even if the vegetable plots are newly enriched, the output of the new plots is far below that of the old plots. "People" refers to problems with work arrangements; this is most important. As a result, last year's grain market price increased about 10 percent over the previous year, and non-staple food prices increased about 13 percent; of the latter, pork prices increased about 15 percent and vegetable prices increased about 19 percent. The 13 percent price increase of non-staple goods alone caused the social commodity gross retail price index to rise almost 4 percent. Of the 1.2 percent by which last year's gross price index exceeded the plan, non-staple foods account for 0.8 percent. This is a distinguishing characteristic of last year. We certainly must give serious attention to this problem.



2. There was little direct state price adjustment, while there were many indirect factors, involving other policies and measures, which resulted in a rise in prices. This is the main reason that prices rose considerably even though there was little major price adjustment by the state. Last year state price adjustments (at the county level and above) raised the price index only 0.9 percent; the remaining 6.3 percent, aside from the market price increase, was due to various economic measures which caused a wide range of price increases. First was the reduction of foreign exchange imports by central authorities and increase of foreign exchange imports by local authorities. This alone raised the price index about 1 percent. Next, the planned supply of raw materials was reduced, and the unplanned portion was increased; the above-base price increase of coal, electricity, oil, and natural gas occurred. All of these measures were necessary from the standpoint of macroeconomics and long-term trends, but they all influenced the rise of raw materials prices, and spurred an increase of some commodities prices on the market.

3. Some enterprises and small retailers arbitrarily raised prices, and were not forcefully kept in check. The cause of this was that strong price controls are perceived differently in various quarters. There are currently still some who believe that prices should not be controlled. Our market control and adjustment mechanism is very unsound, and laws and regulations are too few. For example, there is no clear legal limitation regarding improper revenues. We have currently done away with many methods of controlling the commodity market, namely, the former "hard line", but have not established a "soft line" which would flexibly adapt to circumstances, and many important commodity markets lack means of adjustment and control. With regard to the circulation of a small number of important commodities, we cannot simply oppose the single channel. Some important, high-demand commodities, such as kerosene and plastic film, should be managed through a single channel. Nor can the price of such commodities as chemical fertilizers be raised simultaneously at the state, collective, and individual levels; if they are allowed to be resold at a profit at every level, and many links are raised in price, the market price will naturally increase without decreasing. We made a major effort at price inspection last year, disclosing a total of more than 900,000 cases of indiscriminate price hikes and imposing a total of about \$800 million in fines and confiscations, about twice as much as 1986, but we were also often hindered by certain departments and individual localities. Some localities would not allow inspection of production data prices on the grounds that most of their products were sold to other parts of the country, and some openly charged two sets of prices, one for the local area and the other for other parts of the country, illegally undermining the non-local areas. In a few places, certain monopolistic enterprises have even taken the lead in violating state policy. It is evident that there are many problems with respect to price control and adjustment, and this has also prevented effective control of rising prices.

4. As to causes with respect to economic balance, total demand exceeding total supply is the basic cause of excessive price increase. Total demand exceeding total supply is a problem which has existed in China for many years. In view of the trend in recent years, the state is bringing these problems under control through "compressed air", and has already achieved results; over the past three years, the rate of increase of the money supply has gradually gone down. Comparing the end-of-the-year money supply with that of the end of the previous year, there was a 49 percent increase in 1984 and a 25 percent increase in 1985, already showing a marked drop in rate of increase; in 1986 and 1987, it dropped further to 23 percent and 19.5 percent, respectively. However, adding together the figures from the past three years, the national economy grew 37 percent, while prices rose 22 percent, totalling 59 percent, and currency issuance has increased 85 percent. In the final analysis, currency issuance is still excessive. The money supply is disproportionately large, showing that fixed assets investment and the consumption fund are still inflated. Extrabudgetary capital construction investment in 1987 still showed a more than 20 percent increase over the previous year. Banks' wage-related expenditures and miscellaneous expenditures to individuals increased 16.4 percent over the previous year; of this, state staff and worker bonuses increased 35.4 percent. Consumption is still inflated. Production of marine products increased 14 percent in 1987, and there was a very large price increase, but production was still insufficient to meet consumer demand. Liquor sales volume increased about 19 percent, which is also unprecedented. It is particularly conspicuous that the growth of social group buying power is still too rapid. The tendency of some organizations and institutions to be extravagant and wasteful, spending money hand over fist and using public funds to live it up, still goes on unchecked. This is not only an economic problem; it is also a political problem. In the Song period, Wang Anshi [3769-1344-4258] stated in a poem entitled "Cherishing Thoughts of the Past in Jinling": "After success, all is gaiety and extravagance; but how can you know whether indolence and pleasure will be accompanied by misfortune?" These lines are very much worth contemplating. Last year, agriculture was not bad; the volume of business of country fair trade increased greatly. But prices, on the other hand, rose about 16 percent, which proves that the total social demand exceeds total supply. Last year, per capita consumption of vegetables did not change greatly, but the proportion of sales accounted for by fine vegetables showed a marked increase. Based on production conditions, per capita consumption of meat can increase by only a little over one jin annually, but in each of the past few years consumption has increased by several jin annually, the greatest annual increase being over 4 jin, far exceeding the rate of production growth.

#### **B. The Effect of Price Increase on the Lives of the People**

Two aspects of the 1987 price increase of 7.2-7.3 percent should be analyzed. First, even though prices rose too

much in 1987, the retail price level could be kept at 7.3 percent, in view of last year's economic climate, including production and marketing conditions, and major efforts were made in various quarters to do this. Over the past year, various levels of government and concerned departments have worked hard to tighten macroeconomic control and increase fiscal subsidies. Even though complaints from the masses about prices reached their peak last year, it was also the year that various levels of government and concerned departments, including price departments at various levels, made the greatest effort. At the same time, judging from the specific types of products which rose in price last year, the prices of the overwhelming majority of commodities were raised, as well as products essential for maintaining and promoting production of commodities in short supply and improving market supply, such as live pigs and some industrial products with serious losses. Although there was a relatively wide range of unjustified price increases, judging from the extent of the price increase, this still accounts for only a relatively small portion. Another aspect which should be noted is that last year's 7.3 percent price increase put a considerable strain on many consumers. The initial forecast had been that the average income of city and township residents would increase nearly 10 percent last year, but after deducting the cost of living index increase of more than 8 percent, real income increased only 1-2 percent; the rate of increase of real income was relatively low this year, compared with recent years. We should adopt certain regulatory and compensatory measures from many areas which would prevent the real standard of living of most staff and workers from being affected amid reform and production development, and would allow it to gradually improve as production increased and returns improved.

### C. Lessons Which Should be Drawn From Experience

What are the main lessons that can be drawn from last year's excessive price increase? Generally speaking, we should give attention to, and draw lessons about, unified thought and perception (including the relationship of development and reform to stability, the relationship between laissez-faire and control, the relationship between the part and the whole, and the relationship between microeconomics and macroeconomics), maintaining a rough macroeconomic balance, vigorous long-term promotion of agricultural production, strengthening market regulation and control, timely feedback of market information, skillful application of price patterns, and the like. One salient point which we should note is that there is a close interrelation between price reform and other reforms; all other reforms are connected with price reform. Price reform cannot be bypassed; it requires steady advance. Even if no major price reform projects are undertaken, other reform measures which indirectly spur price increase may be adopted, and this may in the same way lead to excessive price increase. Therefore, price reform should support other reform, and at the same time, when considering other reform, it is also necessary to consider and control

its effect on price increase. In discussing capital construction, we should not stress "your strengths and our shortcomings", and in discussing stable prices, one should not say "your prices will be stable and ours will rise." Everyone should pool their wisdom and efforts, and, with one heart and one mind, jointly carry out the decisions of the central authorities, bringing to reality the policy, put forth at the 13th National Party Congress, of further stabilizing the economy and further intensifying reform. Only by so doing can the desired results be achieved.

### II. Some Problems of Price Reform Which Need To Be Studied in Earnest

Our party has always advocated linking theory with practice. Based on the position, viewpoint, and methods of Marxism, we should take the spirit of the report of the party's 13th National Party Congress as a guide and energetically encourage the practice of conducting investigations and studies. We should both absorb those experiences of other countries which are useful to us, and also study China's reality, raising the problems and experiences encountered in practice to the level of theory, and using theory to explain and resolve knotty problems existing in practice, and work to make a due contribution to economic system reform and price reform.

For the reader's reference, I shall put forth some questions facing price reform which need to be studied.

1. The question of the relation between the amount of currency issuance and the general price level. I recommend studying the relation in recent years between price increase and the amount of currency issuance, the relation between controlling the amount of currency issuance and economic development, and the like.
2. The question of expanding indirect price control. What aspects are included in indirect price control; whether it includes production and distribution guidance, public finance and banking, the legal system, market control and price intervention measures, price examination and supervision, and the like; and how to apply these methods and policy measures to strengthen indirect price control.
3. The question of price increase and the ability of the consumer to bear it. Intensify research into the incomes of each department and the workers, peasants, and cadres in each locality—the ability of each stratum to bear price increases; what measures have to be adopted in order to both prevent the consumption fund from increasing excessively and also give the masses the maximum ability to bear price increases; how to correctly deal with the relation between the principle of fairness and the principle of efficiency. The question of how to grant due compensation to staff and workers for basic food price increases especially requires study.

4. Enterprise contracting. The relation between enterprise leasing and price fluctuations, including such things as research on price trends after enterprise contracting and leasing; how enterprises after contracting should strengthen price controls, and how to prevent monopolistic enterprises and contracting enterprises from indiscriminately raising prices.

5. The relation between price reform and fiscal balance. This includes such things as the relation over the years between price reform and fiscal balance of payments, the different effects of various reforms of each type of commodity price and personal service fees on the increase and decrease of the fiscal balance of payments.

6. How to consider as a complete system a comprehensive balance between currency issuance, the rate of national economic development, economic system reform, and the range of price increase, as well as public finance, credit, goods and materials, and foreign exchange, in order to attempt to achieve an optimum linkage point.

7. How to utilize price level fluctuations and price differences to reduce the disparity between supply and demand and promote economic balance.

8. The relation between national price reform and local price reform: which price reforms are suitable for unified nationwide implementation; which price reforms can be carried out first in certain places; and which price reforms can be carried out completely in line with local conditions. How to deal adequately with the relation of the nation to each province, city, and ward, as well as the relation of the provinces, cities, and wards to the counties, in implementing price reform.

9. Study of a long-term plan for price reform, including assigning precedence among price reform of agricultural products, production materials, industrial consumer goods, and various charges, and how to carry out the reforms. In particular, we should study the question of how to use a pluralistic method to gradually resolve and regulate the low prices of important agricultural products.

10. Research into the relation between foreign and domestic prices. This includes the question of which products' foreign and domestic prices should be close to each other, and which commodities should maintain a disparity between their domestic and international prices; which price fluctuations should take domestic conditions as their basis, and which price fluctuations should be linked to the international market prices; and how to create a policy which is advantageous both to the utilization of two markets to develop an export-oriented economy, and also to maintain independence and autonomy.

#### **REFORM Editor on Attributes, Diversified Forms of Socialist Enterprises**

40060358 Chongqing GAIGE [REFORM] in Chinese  
No 1-2, 10 Jan, 10 Feb 88

[Article by Jiang Yiwei 5592 0001 5517: "Attributes of Socialist Enterprises"]

[10 Jan 88 pp 60-66]

[Text] In 1978, when I returned to economic research, the party began thinking about economic structural reform amid talk of bringing order out of chaos. In December of the same year, the party convened the 3d Plenum of the 11th CPC Central Committee, a meeting of epochal significance which opened a great chapter of economic structural reform in Chinese history—and presented the theoretical community with an important historical mission, namely, "liberate ideology, seek truth from facts," and study economic structural reform issues by integrating theory with practice.

I am far from being an expert in economic theory. However, I have spent years working on economic research in practical departments. If a theoretical worker must often consider how to fit theory into reality, I have to fit reality into theory even more often. How to explain in theory the numerous contradictions in economic real life? How to solve them in theory? Comrade Deng Xiaoping's call for "liberating ideology and seeking truth from facts" unshackled us ideologically and unleashed an outpouring of ideas that had been pent up inside me for years. In June 1979, I wrote an article "My Opinion on the Theory of the Enterprise" and submitted it to the leaders concerned on the CPC Central Committee for their reference.<sup>1</sup> It was affirmed and later distributed to deputies to a Central Committee working conference as reference materials.

"The Enterprise" got mixed reviews after it was published and became a controversial topic in the course of reform. The controversy died down only when the 3d Plenum of the 12th CPC Central Committee said unequivocally that "revitalizing enterprises, particularly large and medium-sized state-owned enterprises, is a central link in the overall city-centered economic structural reform."

During the last few years I focused on economic structural reform in my research and have published a succession of papers, but most of the basic arguments had already been made in "The Enterprise," so you can say the papers refine and elaborate the earlier work. The arguments, including the transitional nature of socialism, two-tier distribution according to work, planning and the market, industrial reorganization and enterprise consolidation, the utilization of urban centers, ownership reform, economic democracy, and the theory of workers as the mainstay, all proved to be controversial to various extents. But the gratifying thing is that as structural reform became more and more far-reaching, my



opinions either were embraced by an increasing number of comrades or happened to coincide with the ideas of yet others. Some of them were found to be true through practice.

Some comrades say in private that I represent a school of thought in economic structural reform. Others even include Comrade Lin Ling [2651 0407] in this school of thought and call us the "structuralists" because we start with enterprises and then proceed to study enterprise combination, ownership structure, the structure of business organizations, market structure, economic networks, economic centers, and even the organizational structure of macroeconomic control, among other things. While the objects of our inquiry are all part of the socialist commodity economy, they say, we emphasize the rationality of organizational structure. They have a point. At a time when China is undergoing a great historic transformation guided by the party's call to "liberate ideology and seek truth from facts" and the double hundred principle, naturally a variety of schools of thought, each with its own characteristics, will emerge. This is a very good thing, the sign of a thriving nation and flourishing scholarship. Still we dare not call ourselves a school of thought as yet. A school of thought must have a coherent body of profound ideas. Although we have done some systematic thinking on reform, we have been so preoccupied with practical exploration and verification thus far that we do not have the time to refine our theory.

Comrade Zhao Ziyang once said that reform is a complex piece of systems engineering. The convening of the 13th National Party Congress has propelled reform to a new historic stage. On the basis of 9 years of reform, we need to build a new institutional framework that incorporates the microeconomy with the macroeconomy systematically. This requires us to put forward a number of different propositions combining theory with practice, try out different schemes, and then analyze and compare them so that we may come up with a social economic system with Chinese characteristics.

Undeterred by my ignorance, I have sorted out and collected my thoughts on economic structural reform over the past few years and presented them in this series of papers, hoping that my pedestrian observations would elicit more valuable opinions from others and that the vast numbers of theoretical workers and practitioners would comment on and correct my works. The paper comprises six parts: 1) Overview; 2) Enterprise model; 3) Market systems; 4) Macroeconomic regulation and control; 5) Management organization; and 6) Urban centers. It will be published in installments in this magazine. As space is limited, the paper is published in outline form.

#### (1) Overview

##### 1. The Transitional Nature of Socialism<sup>2</sup>

Between capitalism and communism there is a transitional historical stage of socialism. That much is recognized by all Marxists. But this transition is a long

historical stage. How to actually effect the transition is a question that can be answered only gradually through practice; we cannot possibly ask the founders of Marxism to foresee the details more than 100 years ago. To argue that only Marx's words represent Marxism is to be bogged down in the quagmire of dogmatism.

The history of the development of human society tells us that the process whereby a new production mode replaces an old one cannot be divided neatly into two distinct stages. What happens is that the new mode germinates in the old mode or the old mode survives in the new mode, thus giving rise to a transitional historical stage. Transition may take a variety of forms and shapes. Its duration too varies according to social and historical circumstances.

How should we interpret this transitional historical stage? Judging from international experience of more than half a century and China's own experience over the last 30 centuries, we can make these two conclusions at least:

First, socialism is a relatively long historical stage.

According to the scientific thesis of the founders of Marxism, it is possible to practice communism only when productive forces have become highly developed and material production has grown abundant, coupled with specific international historical conditions. Thus even a country where a socialist production mode is in place cannot complete this great and arduous transition within a short historical period. Circumstances vary from country to country and there is no one uniform transitional time, but no country has completed the transitional stage within a few decades. For a country with a low level of productive forces which is economically underdeveloped or whose economy has developed in a highly uneven manner, the transitional stage has to last even longer. The absence of this understanding is the ideological source of all kinds of "leftist" mistakes.

After democratic revolution triumphed in China, we successfully overcame the economic chaos and difficulties inherited from the old society and began large-scale economic construction and socialist transformation. These achievements made us underestimate the difficulty, complexity, and time-consuming nature of socialism as a transitional historical stage. In addition, influenced by the vulgar interpretation of socialism, we adopted a succession of radical economic measures despite our backward productive forces in an attempt to speed up the transition to communism on the strength of political enthusiasm and subjective will. Hence we repeatedly whipped up the "wind of communism," launched the "Great Leap Forward," and promoted communes that were "large in size and highly collective in nature," so on and so forth. Practice proves that this kind of behavior, which gets ahead of history and defies objective laws, could only impede historical development and severely damage socialist construction. A

review of these experiences and lessons cannot but make us realize that in a vast and populous country like China, where the level of productive forces is very backward and development extremely uneven, the transition to communism can never be completed in a few or a dozen years, but must take almost 100 years or even longer.

Second, the transition in time must manifest itself as transition in space.

We usually discuss the historical stage of transition in temporal terms. But time and space are united. A temporal transition is inevitably a spatial one as well. If we recognize that the transitional stage will take a long time, but deny the existence of a spatial transition, we in essence deny the existence of temporal transition also. This too is an important ideological source of "leftist" errors.

So-called "transition in space" means the coexistence in space of a multitude of economic forms. Apart from socialist elements, a small quantity of capitalist elements exists in the historical transitional stage of socialism. As long as the socialist elements occupy a dominant position, the society in question remains a socialist society.

Public ownership of means of production is the most basic attribute of socialism. But is it necessary for all means of production to be publicly owned, even uniformly owned by the whole people? Based on the principle that temporal transition must manifest itself as spatial transition, a plurality of ownership systems, including capitalism, may coexist and develop, provided they are favorable to the development of productive forces and public ownership plays the major role in the national economy.

In distribution, "distribution according to work" too is a basic attribute of socialism. Distribution according to work is transitional. Based on the principle that temporal transition must manifest itself as spatial transition, the existence of other distribution methods should be permitted, including a limited amount of distribution according to investment, distribution according to the number of shares held, and returns on venture capital, as long as distribution according to work takes center stage.

The 13th NPC offered a systematic exposition of the theory of the initial stage of socialism and made it clear that China is in just such a stage. It also noted, "This conclusion means two things. First, the Chinese society has become a socialist society; we must uphold and not depart from socialism. Second, China's socialist society remains in the initial stage. We must proceed from this reality and not get ahead of this stage." In particular, it was pointed out that the initial stage of Chinese socialism is not the beginning stage that any country will go through after it achieves socialism, but refers specifically to that stage that China must go through as it builds socialism against the backdrop of backward productive forces and an underdeveloped commodity economy.

This is a crucial development of the Marxist theory of the transition of socialism. Proceeding from this scientific thesis, our party has put forth a series of guiding principles of far-reaching import for the construction of socialism with Chinese characteristics and laid a scientific theoretical basis for economic structural reform.

## **2. Structural Reform Is the Self-Improvement and Development of the Socialist System<sup>3</sup>**

A correct understanding of the historical stage in which Chinese society now finds itself is a basic point of reference for the formulation and implementation of correct lines and policies. Socialism is a transitional historical stage. Since China remains in the initial stage of this transition, we should not transform future communist ideas into present policies, thereby stirring up winds of communism of varying intensity. Nor should we demand the pure of the purest and reject any non-socialist elements. Be that as it may, socialist elements must play the leading role. Thus structural reform is definitely not the negation of socialism, but the further improvement and development of the socialist system.

Why adhere to socialism? Marxists are not followers of a religion or blind believers of a creed. Scientific socialism is the conclusion of a scientific review of the objective law of human historical development. It is the inevitable trend in human history. However, while socialist principles are correct, a new-born socialist system has no experience to go by in turning principles into reality. All it can do is to grope its way through practice.

It may be premature to say that capitalism is dying, but the irreconcilable contradictions within capitalism are an objective fact. To coordinate social economic development, socialism has mobilized the work initiative of hundreds of millions of people to speed up the development of productive forces. It will not work for China, a huge country with a vast territory and an enormous population where development is highly uneven, to rely on capitalism to catch up with developed nations and bring about common prosperity. Yet the superiority of socialism offers us only a possibility. We need more than principles to turn a possibility into reality. We need to find a practical way of realizing socialism and the superiority it offers. This is a glorious mission history has conferred on us.

The so-called structure is not the same as basic principles and basic institutions. For over 30 years, we undertook socialist construction with what must be considered a good deal of success, generally speaking. Nevertheless, owing to inexperience and the influence of "leftist" mistakes, the superiority of socialism has not been fully exploited precisely because the structure we followed did not totally comply with the objective laws of socialist development. Therefore, we are now faced with the task of further improving and developing the socialist system through all-round structural reform.



As far as economic structural reform is concerned, we can show that reform is the improvement and development of the socialist system in at least the following aspects. First, public ownership is the basic attribute of socialist systems. Economic structural reform neither weakens nor negates public ownership. Instead, it improves and develops the structure of socialist ownership. In general, ownership reform consists of two parts. On the one hand, within the general framework of public ownership, we develop a plurality of ownership systems and make the individual economy and small-scale private ownership a useful supplement to public ownership. On the other hand, we reform public ownership itself. We must break with the traditional notion that a unitary system of ownership by the whole people is the highest form of socialist public ownership and recognize that enterprise collective ownership, worker cooperative ownership, and mixtures of these forms of ownership, as well as ownership by the whole people, all belong to public ownership. The dominant role of public ownership should not be measured by the number of publicly-owned economic entities but by the share of publicly owned capital as a percentage of total national capital.

Second, distribution according to work is another basic attribute of the socialist system. Not only does economic structural reform not reject distribution according to work, but it actually seeks to truly realize that principle and put an end to the old misguided practice of equating egalitarianism and eating off the common rice pot with distribution according to work. The reform of the distribution of means of consumption also includes two parts: 1) preserve the dominance of distribution according to work but adopt several other kinds of distribution methods and allow the existence of some non-labor income, and 2) reform distribution according to work itself. Under a socialist commodity economy, we must practice "two-tier distribution according to work." It works like this. We link the total consumption funds of the entire work force of an enterprise to its profits, this being distribution according to work between society and an enterprise collective. Within the enterprise itself, there is distribution according to work for each individual worker.

Third, national economic planning and management is yet another important attribute of a socialist economy. Economic reform does not deny the need for and possibility of planned proportionate national economic development. However, we must discard the traditional notion that command planning and direct control of enterprises are the highest form of planned management. We should adopt a planning and management system where indirect control prevails and where the state regulates the market and the market guides the enterprises. This is exactly an improvement and development of the socialist planned economy.

Fourth, democratic centralism is a basic principle of the socialist political system as well as of the economic system. Our goal is to build a highly democratic, highly

civilized socialist society. A high degree of democracy includes economic as well as political democracy. In my opinion, economic democracy is the cornerstone of political democracy. An important goal of economic structural reform is to apply democratic centralism to the economic arena, as Lenin said. A principal defect of the old system was that it stressed centralism exclusively, ignoring and even defying democracy. Consequently, grass-roots enterprises and rank-and-file workers had no self-management authority, initiative and creativity were not fully marshalled, and the superiority of socialism was not realized. In terms of the structure of the management system, therefore, economic structural reform in essence also seeks to achieve socialist economic democracy.<sup>4</sup>

Socialist economic democracy should be achieved gradually, from the bottom up. To begin with, democratic centralism should be established inside the enterprise. Working on this basis, we should then introduce industrial democratic centralism and urban economic democratic centralism, all the way to national economic democratic centralism, all of which can be fully realized only in a socialist society. Clearly this can only improve and develop the socialist system.

### **3. The Goal of Economic Structural Reform Is a Planned Socialist Commodity Economy**

There are different views regarding the goal of economic structural reform. Some people distinguish between different goals by the degree of centralization or decentralization of decision-making authority. Others go by the characteristics of economic operating mechanisms. All of them, however, look at just one aspect of things and none takes in the overall nature of the new system.

As I see it, the call of the 3d Plenum of the 12th CPC Central Committee for a "socialist planned commodity economy" fully describes the goal of economic structural reform in China.

In his report to the 13th NPC, Comrade Zhao Ziyang said, "The 'Decision of the CPC Central Committee on Economic Structural Reform' passed at the 3d Plenum of the 12th CPC Central Committee makes it clear that the socialist economy is a planned commodity economy based on public ownership. This is how our party sums up the socialist economy scientifically. It is a major development of Marxism and provides the basic theoretical anchor for economic structural reform in China."

That commodity economy must remain in the historical stage of socialism is borne out not only by what we have learned from 30 years of socialist practice in China but also by the practical experience of all other socialist countries. However, this scientific thesis is a vital breakthrough in traditional Marxist thinking.

Why can and must a socialist society practice a commodity economy? Our reason is that "the full development of a commodity economy is a stage in social economic development that cannot be skipped." This is a good enough reason for a country like China where the commodity economy is extremely backward. But what about countries with a highly developed commodity economy? Can they skip this stage? Not necessarily, in my opinion.

To equate a commodity economy with a capitalist economy is a vulgar interpretation of the former. As we all know, a commodity economy is not a form of economic operation unique to capitalism. As early as the latter period of the primitive communist society, man was already producing and exchanging commodities. However, traditional thinking argues that the commodity economy reached an advanced stage of development in capitalist society. Come socialism, it says, and the commodity economy would be replaced by a product economy where products are directly distributed. Looking back now, we believe the thrust of this argument does not necessarily comply with the objective law of historical development. As an economic operational form that does not belong to a specific society, a commodity economy may serve socialism as well as capitalism. Why is it inconceivable for the socialist commodity economy to be a higher form of commodity economy than capitalism? It may be premature to make such a statement now because the socialist commodity economy has barely come into existence and is still in its infancy. Its operating mechanisms are far from perfect and we need to learn from the capitalist experience. Still, once a new born baby becomes an adult, it will outdo its predecessors.

In terms of operating mechanisms, the socialist commodity economy and its capitalist counterpart have many similarities, such as commodity exchange, the law of value, market competition, etc. That is precisely why many people, looking only at the superficial, regard our effort to put together a socialist commodity economy as an attempt to practice capitalism. An essential difference, however, does exist between a socialist commodity economy and a capitalist commodity economy. This difference lies in ownership basis.

In Marxist philosophy, material and motion are united. Any material is in a state of motion, any motion is the motion of material. The operating mechanisms of economic motion are also united with the operational vehicle of the economy. The significance of our establishing a socialist commodity economy is that as the vehicle of socialism (primarily the ownership system) functions in accordance with the operating mechanisms of the commodity economy, a new form of commodity economy will inevitably come into existence, which will not simply duplicate the old form of commodity economy.

The socialist commodity economy is a commodity economy founded on the basis of public ownership. Since

public ownership is the centerpiece of a socialist economy, the result is two attributes which distinguish the socialist commodity economy from its capitalist counterpart.

First, on the microeconomic level, public ownership directly unites the worker with the means of production, making him the commodity producer and operator of public ownership. It puts an end to the abnormal situation in which inanimate labor (means of production) controls living labor (workers), thereby spurring the enthusiasm, initiative, and creativity of workers, the prime productive forces. This is the basic reason why socialism is inevitably superior to capitalism. Of course, whether or not we can capitalize on this superiority still depends on the capability of our institutions to fully realize this socialist attribute.

Second, on the macroeconomic level, the fact that the national economy is based on public ownership enables the entire society to consciously ensure that the national economy develop in a coordinated way. The socialist commodity economy is a planned commodity economy. Provided we abolish the rigid planning and management system of the past, make good use of the two tools of planning regulation and market regulation, and apply indirect control in which the state regulates the market and the market guides the enterprises, we will be able to gradually find a way that will apply market mechanisms and overcome the state of anarchism in spontaneous, haphazard production, exploit resources fully and effectively, and develop the national economy in a coordinated manner.

#### **4. The Substance of the Socialist Economic System and Its Internal Logical Relations**

The party arrived at the model for the economic structure only after reviewing decades of socialist practice at home and abroad and China's experience in reform over the past few years. Now the model has been determined. But filling in the details and implementing them are an arduous and complex piece of systems engineering.

The economic system covers a broad area. Every aspect is related to every other aspect. Cases where a slight move may affect the whole situation abound. Reform, therefore, cannot be conducted in isolation but only systematically in a coordinated way. There must be a comprehensive plan. But reform is a novelty. No experience exists for us to follow. All we can do is to combine theoretical research with practical experimentation and test a succession of plans, proceeding from the simple to the complex and, in the process, furthering reform.

We have been exploring reform for 9 years, with remarkable success. Nevertheless, we have also encountered all kinds of problems. But what we have been through affirms our reform goal and may give us a general idea of the framework for the new system.

To offer an overall plan for the economic system, we must first analyze the connotations and internal logical relations of the economic system. The goal of our reform is to create a socialist planned commodity economy. A commodity economy, no doubt, needs commodity producers above all else. This is the first prerequisite for the creation of a commodity economy. Some comrades argue that the attribute of a commodity economy is the market. Without a market, we cannot even begin to talk about a commodity economy. That is true. However, in terms of its internal logical relations, commodity producers must come first. Only when a commodity economy turns out commodities can they be exchanged on the market. Thus the existence of commodity producers is a precondition for the formation of a commodity economy.

The presence of commodity producers will give rise to a demand for the creation of a commodity market. Commodity producers not only sell their commodities on the market, but must obtain the various major elements from the market, including all means of production, labor, and funds, etc. This creates a market system. Without a complete market system, commodity producers cannot exist either.

The socialist commodity economy is a planned commodity economy. It is the function of the socialist state to manage the economy. Under a socialist commodity economy, the objects of state management are the commodity market and commodity producers. The state does not directly control commodity producers. Instead, it guides their conduct by regulating the market. This requires the establishment of a control and regulating system. Correspondingly, we need to establish economic management machinery, both government and private, which will then build up a web of relations of democratic centralism.

Judging from the logical sequence above, social economic structural reform should consist of the following, in proper order:

To begin with, we must determine the form of socialist commodity producers (enterprises and other economic entities) and turn them into economic "cells" that are full of vigor and dynamism. This is precisely the reason why the party decided to make enterprise revitalization the centerpiece of the entire city-based economic structural reform.

Second, we should establish a coherent socialist market system with the commodity market as its core, thus forming a commodity economic network characterized by horizontal economic associations. In this economic network, with its interwoven horizontal economic linkages, economic centers of varying sizes, in other words, urban centers large and small, will inevitably emerge. They will be the operational hubs of the commodity economy. To establish a socialist commodity economy, we must open up to the outside world and make a push

for the international market. Here coastal cities, particularly special economic zones and special administrative regions like Hong Kong, Taiwan, and Macao, will play a vital role, serving as a bridge between the interior and the outside world.

Furthermore, we must establish and continuously improve the state's capability to regulate and manage the economy. We must draw up a long-range economic development strategy and a near-term development plan. To bring about the planned, proportional, and coordinated development of the national economy, we should put together a coherent macroeconomic control system relying mostly on indirect control to guide economic development.

Finally, to mesh horizontal economic associations with vertical economic management effectively, we should establish private economic organizations, including trade associations and economic councils, in accordance with the principle of democratic centralism so that they become a vehicle for achieving socialist economic democracy. In addition, we should reform the state machinery and establish a policy-making system, an economic regulation system, an economic supervisory system, and other management organs under centralized leadership.

Establish a vital and dynamic national economic body, using commodity producers as living economic cells and through horizontal economic linkage and vertical economic management organs. Such is the arduous and complex task we must accomplish if we are to carry out structural reform and establish a planned socialist commodity economy. (End of Part I. To be continued.)

[10 Feb 88 pp 74-86]

[Text] Abstract: This is Part 2 of Jiang Yiwei's article on his plan for a socialist economic system and deals with socialist enterprises. It proceeds from the basic premise that the socialist enterprise is a socialist commodity producer and operator based on public ownership and analyzes in detail the basic attributes of its organizational structure in these four aspects: ownership and operational system, labor system, distribution system, and leadership system. The article proposes that as the socialist commodity economy develops and enterprise reform intensifies, socialist enterprises should take a wide range of forms and not be confined to just one model. On the other hand, whatever the form it takes, a socialist enterprise must bring out the basic attributes of socialism and raise the level of modern management to realize in order to realize to the full the potential superiority of socialism.

## (2) Enterprise Models<sup>5</sup>

Enterprises are the foundation of the nation's economy and the starting point and anchor of economic structural reform. The purpose of reform is to liberate and develop



productive forces. Where are productive forces? In enterprises. Not only does the enterprise house productive forces, but it also directly embodies the social economic system. We say public ownership is the basic attribute of the socialist system. Where is public ownership? Also directly realized in the enterprise. The model for the overall economic system is the socialist planned commodity economy and the basis for this macroeconomic model is the socialist commodity producer and operator, which is the microeconomic model. We must first determine a model for the socialist enterprise and use it as a standard as we work upward level after level. That is the only way to create a framework for the entire economic system.<sup>6</sup>

The private economy should not and cannot be totally eliminated in the initial stage of socialism. It is a useful and necessary supplement to the public economy. Thus a plurality of ownership systems will necessarily coexist in the initial stage of socialism, with public ownership in the leading and dominant role. This article mainly analyzes and examines the question of a basic model for the socialist publicly-owned enterprise, leaving aside models for private enterprises and mixed public and private enterprises for the time being.

### 1. Basic Attributes Of Socialist Enterprises

Socialist enterprises are the commodity producers and operators under socialism. They are both similar to and different from capitalist enterprises.

The functioning of an economy includes two parts: operational mechanisms and operational vehicles. Similarly, the economic activities of an enterprise include behavioral mechanisms (or operational mechanisms) and organizational model. Since the socialist enterprise is the commodity producer and operator under socialism, its behavioral mechanisms must comply with the objective laws of the commodity economy. For instance, it should be an independent economic entity where ownership and management are separate as appropriate. The owner entrusts its property to the enterprise for management, thereby making the enterprise a legal person that assumes civil responsibility on its own. The enterprise should have decision-making authority, be accountable for its own profits and losses, and have the capacity for self-transformation and self-development. The production and exchange of an enterprise should be subject to the constraints of the market and the law of value. Enterprises must compete with one another, a process of rewarding the strong and weeding out the weak that will fuel the enterprise's enterprising spirit and spur enterprise reorganization and consolidation. These and other behavior mechanisms differ significantly between socialist enterprises and capitalist enterprises, even though both are commodity producers and operators. The distinction lies not in the behavioral mechanisms that go with a commodity economy, but in the organizational structure of the operating vehicle, the enterprise.

In his report to the 13th NPC, Comrade Zhao Ziyang said, "The essential difference between the socialist commodity economy and the capitalist commodity economy lies in their different ownership systems." In other words, the socialist commodity economy is based on public enterprises, or enterprises which are predominantly publicly-owned.

Derived from public ownership are the following basic characteristics of the organizational structure of the socialist enterprise:

First, its ownership and operations must embody the principle of directly integrating the worker with means of production, transforming the worker into the master of means of production, thereby fundamentally ending the phenomenon in privately-owned and privately-run enterprises in which "capital" controls "labor" and "materials" control "man," and fully mobilizing human initiative.

Second, the labor system must fully realize the principle that the enterprise is an association of free and equal producers. In a publicly-owned socialist enterprise, workers are not hired hands, but free and equal producers. The entry into or withdrawal of a worker from an enterprise is an act of mutual selection by the worker himself and the enterprise's labor collective. An enterprise is a legal person. Legally, the capitalist enterprise is essentially the owner of capital, while the socialist enterprise is essentially a labor collective.

Third, the distribution system should embody the principle that distribution according to work is the main means of distributing all material interests. In a publicly-owned socialist enterprise, labor is not a commodity and the income of a worker is not dependent on the labor price formed by the labor market, but on the fruits of collective labor and individual contributions. In a commodity economy, therefore, we need to adopt a "two-tier distribution to work" system, under which the total collective consumption funds are determined in accordance with the fruits of collective labor and then distributed in accordance with individual labor contributions. Apart from distribution according to work, we should implement other material interest principles, including concern for the enterprise's balance sheet, in order to relate the interests of the worker to those of the enterprise and the state.

Fourth, the leadership system. A publicly-owned socialist enterprise must adopt the principle of democratic centralism, establish the worker as master of the enterprise, and put together a highly centralized director (manager) responsibility system on the basis of democratic management. The authority of the manager should rest on the active support of all workers in the enterprise.

These four aspects all fall within the realm of production relations. Only by handling these relations in accordance with socialist principles can we give socialist enterprises

their distinct features. If we discard these attributes or copy the capitalist model indiscriminately when it comes to the organization of production relations, socialist enterprises will cease to be socialist enterprises.

## **2. The Ownership And Operational Systems of Socialist Enterprises<sup>8</sup>**

Public ownership is a basic attribute of socialist enterprises. Practice, however, shows that because of inexperience and the influence of "leftist" errors such as the effort to make "communes large in size and highly collective in nature," the actual implementation of socialist public ownership is fraught with problems, which have prevented the full exploitation of the superiority of public ownership. This requires us to break with traditional concepts, understand anew the meaning of public ownership, and energetically reform public ownership as necessary.

### **A. The Many Forms of Socialist Public Ownership**

Economic structural reform in China not only allows the existence and growth of private ownership as a supplement to public ownership, but also seeks to diversify public ownership itself. But what are the actual forms of public ownership? Traditional thinking confined public ownership to two forms, namely ownership by the whole people and collective ownership by the working masses, and considered the former the higher of the two. In reality, though, public ownership in China today has already grown beyond these two forms and will appear in yet more incarnations as reform intensifies. At present, there are at least eight forms of public ownership: A. unitary ownership by the whole people; B. collective ownership of the cooperative variety (small collectives); C. collective ownership of the communal variety (large collectives); D. mixed A and B; E. mixed A and C; F. mixed B and C; G. mixed A, B, and C; H. mixed public and private ownership, with stress on the former.

Years of practice in public ownership have resulted in two different versions of collective ownership, namely cooperative and communal. In the beginning, so-called collective ownership referred to the cooperative collective economy in which workers pooled their funds to buy shares and took part in labor. Later, because of the movement to make communes "large in size and collective in nature," this kind of cooperative economy was mostly transformed into collective ownership of the so-called "large collective" variety. The assets of this type of collective enterprises neither belonged to the state nor were raised by enterprise workers. Instead, they came from the gradual accumulation created by workers over the years. While the formation of this type of collective ownership resulted from the movement to make communes "large in size and collective in nature," it was a new dynamic form of public ownership that emerged through practice. We call this kind of collective

ownership "communal" collective ownership to distinguish it from the typical "cooperative collective ownership." The characteristic of communal collective ownership is that assets are "communally" owned by the workers, but not by any particular worker. In essence it is a type of "enterprise ownership." Some comrades are strongly opposed to the idea of enterprise ownership and object to the presence of "enterprise shares" in shareholding pilot projects. But what these comrades fail to see is that so-called large collective enterprises already come under enterprise ownership in essence and have existed legally in China for decades. It is just that they have not been recognized formally as such. When people mention collective ownership, they often lump together these two totally different collective economies.

As reform intensifies and enterprises establish horizontal economic linkages, the four mixed ownership systems, namely, D, E, F, and G, will inevitably appear. Since they are made up of different forms of public ownership, they remain publicly-owned enterprises in nature.

We have been opening up to the outside world, absorbing foreign capital, and setting up Sino-foreign joint ventures. Hence the appearance of mixed public and private joint ventures (H). If a joint venture is mainly funded by public capital, it may still be included among publicly-owned enterprises. As domestic private enterprises emerge in the future, so will domestic mixed public and private joint ventures. If we practice a shareholding system and issue stocks in society, it is inevitable that private individuals will become shareholders. This situation—private individuals owning stocks—differs from that in which the workers of an enterprise hold stocks in their company. The latter case, where the workers take part in labor as well as invest, falls under cooperative collective ownership. It is in essence public ownership, whereas shareholding in which private individuals in society (including workers from outside the unit concerned) buy shares is private ownership. On the other hand, an enterprise where a majority of shares are publicly owned and which absorbs a small amount of private capital as appropriate should still be regarded as a publicly-owned enterprise.

### **B. Is Ownership by the Whole People the Highest Form of Public Ownership?**

Traditional thinking considers ownership by the whole people a superior form of public ownership and collective ownership an inferior form. It also argues that collective ownership should advance toward ownership by the whole people, thereby paving the way for the realization of communism. Such was the ideological basis for the movement to make people's communes "large in size and collective in nature" and for the campaign to portray poverty as something positive. In fact, other than an opinion asserted by Stalin, there is little theoretical backing for the notion that ownership by the whole people is a superior form and therefore inviolable. The writers of Marxist classics did not define the



actual form of public ownership. More often they referred to the "joint ownership of property" and "the joint ownership of means of production," etc., but never once did they claim that ownership by the whole people (in essence state ownership) is the highest form of socialist public ownership. Even if there were some theoretical basis, we still need to put it through practice to find out whether or not it is valid. Decades of practice prove that to turn all enterprises into state-owned enterprises irrespective of their nature and size and make no distinction between ownership and management have been highly damaging to the mobilization of worker initiative and the development of productive forces. State ownership means state operation. Enterprises as large as railroads and posts and telecommunications and as small as barber shops and snack counters were all owned and operated by the state, giving rise to the practice of "eating off the common rice pot" and the "iron rice bowl." Moreover, enterprises owned by the whole people could not possibly all be managed by the central government, which then had no alternative but to delegate their management to sectors and localities. The resultant fragmentation has severely impeded the socialization, commercialization, and modernization of production.

We cannot and should not demand that socialist public ownership take one unitary form or confine it to one single model. The form should vary according to the nature and scale of operations of the enterprise in question and its place and function in the national economy, in addition to the objective needs of its production development. All forms of public ownership are legal and equal. The development of any form should be encouraged provided it benefits the development of productive forces. We cannot subjectively draw a line between superior and inferior forms.

#### **C. How To Interpret the Notion That a Socialist Economy Is Based on Public Ownership?**

A socialist economy is based on public ownership. In other words, publicly owned assets constitute a majority of all national assets. Since public ownership can take many coexisting forms, publicly-owned assets in this context are not limited to the assets of state-owned enterprises but include other publicly-owned assets. So-called "a majority" is calculated in terms of the value of assets (that is, capital), rather than the number of enterprises. Say 4,000 enterprises out of 10,000 are publicly-owned. In numerical terms, these 4,000 enterprises are in the minority, yet they may well hold over 80 percent of the total capital. In that sense they are the majority. To decide whether a particular enterprise is a publicly-owned enterprise, we also must calculate the share of its public capital as a percentage of its total capital. If a majority of its capital is publicly owned, then it is a publicly-owned enterprise.

It is essential that we reason things out as above. Making public ownership the basis of a socialist economy does not mean that we seek to turn a majority of enterprises

into publicly-owned enterprises, let alone state-owned enterprises. By selling a number of small state-owned enterprises to private individuals and hence turning them into private enterprises, or by turning them over to collectives and making them collectively-owned enterprises, the state recoups some capital which can then be spent on industries in greater need of support and development. In all these transactions, the volume of state capital has not decreased, yet the centralized utilization of capital has improved. This kind of planned capital transfer should become an important part of the reform of the state investment system.

#### **D. The Main Significance of Making Public Ownership the Basis of a Socialist Economy**

After we opened up to the outside world, a question has arisen. Since capitalist enterprises are highly efficient and can develop productive forces, why then must we insist on making public ownership our basis? This question involves our basic understanding of socialism. People who harbor such doubts see only the positive side of capitalism, not its negative side. At the same time, they see only the shortcomings of socialism born of institutional imperfections, not its enormous superiority. While it is not the purpose of this article to discuss these issues comprehensively, we need to take a look at the major functions of public ownership here in order to further understand the characteristics of publicly-owned enterprises.

Making public ownership our basis serves one important macroeconomic function, namely enabling society at large to consciously maintain coordinated national economic development, balancing development in advanced areas with that in backward regions, in cities with that in the countryside, in all industries, in the domestic market with that in the international market, and balancing developments in the economy, science and technology, culture, and society. The state should distribute productive forces sensibly in accordance with resources, markets, and other factors. In addition, it should set aside part of the accumulation to focus on key projects in a planned way in order to promote coordinated national economic development.

Making public ownership our basis serves an even more important microeconomic function, namely turning workers (mental as well as physical) into the mainstay of an enterprise and the master of means of production, thereby mobilizing their immense initiative, creativity, and enthusiasm. Labor is the most important and active part of productive forces. As science and technology advances, mental labor has grown more and more important relatively and the mobilization of worker initiative an increasingly decisive factor in the progress and development of modern enterprises. Most capitalist enterprises recognize this and are doing their best to reduce labor-management conflicts within the framework of private ownership. Socialist enterprises are best qualified to tap the potential of workers, which is precisely

where socialism excels. Yet this vast latent potential was not put to good use in the past and still does not receive full attention from many comrades even in the age of reform.<sup>9</sup>

#### **E. Separating Government and Enterprise Functions and Separating Ownership From Management**

Under the old system, enterprises owned by the whole people were owned by the state and managed directly by the state. Having lost their proper vigor, enterprises became the appendages of some government department. Since reform began, the first thing we did to revitalize enterprises was to expand their decision-making authority, followed by proposals to separate government and enterprise functions. However, we have yet to find a proper way to actually achieve such a separation. The 3d Plenum of the 12th CPC Central Committee went further and put forward the principle that ownership and management be appropriately severed. This move by the 3d Plenum provided a theoretical basis for the separation of government and enterprise functions. The separation of ownership and management can be effected through such specific methods as leasing, contracting, and share-holding. Thus far, however, the problem of separating government and enterprise functions has not been really resolved. The way leasing and contracting are practiced today, one must contract with or lease from the government department in charge. In some cases, the department in charge actually acts as the general contractor for the higher authorities. These practices create a community of common interests between the department in charge and the enterprise and may well reinforce the fusion between government and enterprise functions. Hence the need to further analyze "the separation of ownership from management."

First, we must conceptually differentiate between "separating ownership from management" and "separating government and enterprise functions." All governments discharge economic management functions. If a government is to manage an economy, it necessarily manages enterprises as well. But this kind of management is "general administrative management." In a commodity economy, with the exception of a handful of special state-run enterprises, most enterprises, including some which are owned by the state, are independent commodity producers and operators. Government and political organs have no power to directly intervene in their internal management, operations, and personnel arrangements, among other things. It is over the enterprise's external conduct that the government exercises "general administrative management." For instance, industry and commerce administration departments issue business permits to enterprises, standards departments supervise enterprises by enforcing standards, foreign trade departments issue import/export licenses, so on and so forth. This kind of "general administrative management" applies to all sorts of enterprises irrespective of size and ownership system.

Another government function is to regulate economic activities, which usually means indirectly guiding enterprise conduct by regulating the market. This function also impacts all kinds of enterprises.

Based on the above functional definition, government and enterprises should have always been separate. So-called "separating ownership from management" refers to the relationship between the owner of an enterprise and the enterprise as a legal person. This relationship occurs in any enterprise, but it does not necessarily involve the government. Only in enterprises with government investment, including state-owned enterprises and those in which the state owns shares, does a ownership-management relationship exist between the government and the enterprise. Under ownership by the whole people, the government exercises ownership as representative of the whole people, which gives rise to a "special management function derived from property right." This special function is totally different from the government's "general administrative management function." As far as the latter function is concerned, government and enterprise have always been separate. That government and enterprise functions became fused had its root in the fact that government organs handled general administrative management, on the one hand, and special management derived from ownership, on the other, in the process confusing one with the other. Also, there was the perception that he who owned must necessarily manage. The upshot was government organs directly managing and operating enterprises by giving out administrative orders. To end the fusion between government and enterprise and truly separate ownership from management, we must have different government organs deal with general administrative management and special property-right management. Government organs that handle general administrative management (including comprehensive departments and those in charge of a specific industry) are part of the state machinery. They exercise government political functions with regard to all enterprises. In addition, we should set up special property-right management bodies (such as state-run investment companies) to function as state-run consortia to carry out capitalist activities and exercise ownership over enterprises receiving government investment. As independent commodity producers and operators, enterprises should not be under administrative departments in charge but should each have its own shareholders or "boss." This is a precondition for "separating government and enterprise." Only when we recognize this precondition can we proceed to study the relationship between enterprise owner and enterprise manager further.

Ownership and management make up one kind of relationship between owner and manager. Not all enterprises need to separate ownership from management. If the need continues for certain special enterprises to be owned and run by the state, ownership and management under those circumstances cannot be separated. Collective enterprises are collectively owned and operated.

There too ownership and management are not separated. To turn enterprises into independent commodity producers and operators and fully mobilize enterprise initiative and enthusiasm, we must separate ownership from management, particularly in share-holding enterprises with diversified ownership. It would be difficult for multiple owners to directly manage and operate an enterprise, so separating ownership from management is thus inevitable in those cases.

The separation of ownership and management should be exactly defined in accordance with the legal person system. China is in the process of perfecting its legal system and many comrades are still not familiar with the concept of legal person and the legal person system. As a result, misunderstanding arises frequently. Confusing legal person with legal person representative is one example.

Legal person is an abstract concept as distinct from natural person. The concept of so-called enterprise legal person treats the entire enterprise as a "person" that assumes civil responsibility under the law. An enterprise with legal-person status enjoys all rights and obligations provided for by law independently and is protected and supervised by law.

Under civil law, "as a legal person, an enterprise owned by the whole people assumes civil responsibility for the assets entrusted to its management and operation by the state." What the civil law says is very clear: the state is the owner of the assets, but it entrusts them to the "enterprise legal person" (not, be it noted, to the enterprise legal person representative.) It is then up to the enterprise to carry out production using its legal person assets and assumes civil responsibility. If it folds or goes bankrupt, it will use its legal person assets to pay off its debts. This is a brief description of the legal person system.

Right now a widely held opinion is that the separation of ownership and management is a division of power and responsibility between owner and manager. The owner of an enterprise owned by the whole people is the state, while the manager is the director. Thus, according to this view, separating ownership from management delineates power and responsibility between the state and the factory director or manager. This view is inconsistent with the above-mentioned legal person system and confuses the overall concept of legal person with the concept of legal person representative. Under the legal person system, the owner is the state while the manager is the enterprise. The concept of the manager in this context denotes an entity. We say that "socialist enterprises are commodity producers and operators under socialism." The producer and operator here also refer to the whole entity. Thus the separation of ownership from management should be properly construed as the separation of state ownership from enterprise management. How an enterprise exercises its right to manage itself is a matter

of organization within the enterprise. Different organizational forms can go with different operational methods. Whichever organizational format it adopts, however, an enterprise, as a legal person, must have a legal person representative to exercise power on behalf of the enterprise (not the state). In our context, "power-conferring" takes place at two levels: the state confers the power to manage its asset on the enterprise legal person, and the enterprise legal person, in turn, confers such power on its legal person representative. The enterprise legal person representative is accountable to the enterprise legal person. It is also accountable to society and state on behalf of the enterprise legal person. Generally speaking, therefore, the corporate legal person must have a "legal person organization" (also known as legal person institution.) Complex legal person organizations are divided into "intent organizations," otherwise called resolution organizations, such as shareholders' meetings and membership committees, and "executive organizations," that is, organizations that execute the affairs of the legal person, such as the board of directors and the executive council. The legal person organization appoints the legal person representative, such as chairman of the board and general manager, etc., to discharge the responsibilities of the legal person. Carried out properly, the separation of ownership and management should meet the requirements of the legal system mentioned above.

#### **F. The Operational Formats of Publicly-Owned Enterprises**

Economic structural reform in China has seen the introduction of several ownership systems and a variety of operational methods. In other words, enterprises of the same ownership system may adopt dissimilar operational methods.

Enterprises fully owned by the whole people (A) can be operated in any one of these three different formats, by and large: state-owned, state-operated; state-owned, individually-operated; and state-owned, collectively-operated.

A number of special enterprises primarily non-profit enterprises closely related to the national economy and people's livelihood, such as railroads, posts and telecommunications, and the military industry, must continue to be owned and run by the state. Strictly speaking, these enterprises cannot become enterprise legal persons but institutional legal persons. However, they may be run like an enterprise. Also, some branch units of these enterprises may be organized as enterprise legal persons in accordance with civil law.

Some enterprises practice individual contracting and leasing under which a contractor or lessee contracts or leases with a government department in charge or a state-run investment company. In this operational format, the state, the owner, commissions an individual to operate a business. Because the contractor or lessee is a



natural person, this kind of enterprise strictly speaking is not an enterprise legal person, either. It has the same kind of legal protection as a rural contracting household.

In some enterprises, the entire work force is the contractor or lessee. In other words, these enterprises are "state-owned and collectively-operated." In a state-owned and collectively-operated enterprise, the workers may elect a legal person organization and recruit and select a legal person representative to execute the affairs of the legal person. Therefore, it is an enterprise legal person owned by the whole people.

Whether they are cooperative (A) or communal (B), all collectively-owned enterprises are "collectively owned and collectively-run." A collectively-owned enterprise assumes civil responsibility for its collective assets and consists of a legal person organization and legal person representative. It is an enterprise legal person under collective ownership.

Because of their diversified property right, enterprises under various mixed forms of ownership (D, E, F, G, and H) must adopt the share-holding system and form a limited liability company or a share-holding limited company. Within such a company, property owners organize a shareholders committee (or property right committee) to execute ownership. An operation and management committee (or board of directors) is appointed by the shareholders meeting or elected by the workers to serve as the legal person organization and manage the company. The chairman of the board of directors or a hired general manager serves as the legal person representative to be responsible for management. This kind of company is the typical enterprise legal person.

The share-holding system is the product of a highly developed commodity economy. It can be utilized by socialist as well as capitalist enterprises. Earlier some comrades considered the share-holding system an organizational format unique to capitalist enterprises. That was a misunderstanding. The share-holding system not only promotes capitalist accumulation and circulation, helps affirm and define property right, spurs interest in property, and raises investment returns, but it also contributes to the standardization of the separation of ownership from management and vitalizes enterprises. From the perspective of development, share-holding will certainly become the major format for Chinese enterprises.<sup>10</sup>

### 3. The Labor System of Socialist Enterprises<sup>11</sup>

The labor system of an enterprise primarily determines the principles and format of organizing workers (mental as well as physical) within the enterprise. Enterprises

which differ in ownership systems and operational formats organize labor differently as well. A socialist enterprise under public ownership should adhere to the principle that an enterprise is an association of free and equal producers and enable workers to truly become the enterprise's mainstay and controller of its means of production.

As a free and equal producer, a worker has the freedom to choose his enterprise. The enterprise too has the right to choose its workers. The worker's entry into and withdrawal from an enterprise, however, is the result of mutual selection by the worker and the enterprise's labor collective.

The labor collective may draw up a "labor pact" or "employee pact" democratically to serve as a labor contract to be honored by all. When an employee joins the labor collective of an enterprise, he must accept and observe the pact. In case of serious violations, the labor collective may terminate the contractual relationship with the worker concerned. An individual worker may also apply to leave the labor collective in accordance with conditions stipulated in the contract.

Three kinds of workers may coexist in the enterprise labor collective. Apart from regular workers, who are the mainstay, there are contract workers and temporary workers. A new employee may enter into a short-term "labor contract" with the labor collective. Upon the expiration of the contract, he may become a regular worker should he meet the necessary requirements. The main distinction between regular, contract, and temporary workers is that they enjoy different rights and have different obligations. A regular worker has full rights and obligations. He is eligible for election as a full delegate to the workers' congress and has the right to take part in democratic management. If the enterprise is not doing well or poorly managed, a regular worker should also bear the appropriate responsibility. The contract worker, on the other hand, has only some of the rights and obligations. He is eligible for election as a nonvoting delegate to the workers' congress where he has the right to speak and make proposals but not to vote. Temporary workers have no rights in and assume no responsibility for the operation and management of the enterprise, but they must comply with temporary labor agreements.<sup>12</sup>

The above-mentioned labor system institutionalizes the worker's position as master of the enterprise and complies with the socialist principle that the worker is the mainstay of an enterprise. It helps build a centripetal force and instill a sense of attachment among the workers toward the enterprise and is consistent with the principles of behavioral science.

There are substantial differences between this labor system and the existing labor contract system: 1) Not only new employees, but all workers are bound by a labor contract (or "labor pact," "labor agreement," "temporary labor agreement;") 2) The labor contract is

worked out by the labor collective democratically to be a self-restraining mechanism. It does not impair the worker's sense of responsibility as master of the enterprise; 3) The contract is not concluded between the individual worker and the leadership of the enterprise, but between the worker and the labor collective, thus realizing the socialist principle that the enterprise is an association of free and equal producers; 4) During the term of the contract, a newly hired employee is effectively on probation. This gives both sides time to try each other out. When the contract expires, he can become a regular worker. This increases worker loyalty. On the other hand, regular workers are not "permanent workers." They can still circulate appropriately within limits.

The labor system is a basic system involving socialist principles. Apart from the above-mentioned labor system that publicly-owned enterprises adopt to protect the workers' status as master, the state should formulate a labor system to protect the rights of workers in private enterprises. However, these two labor systems will differ significantly in nature and substance.

#### 4. The Distribution System of Socialist Enterprises<sup>13</sup>

In the final analysis, the question of distribution in enterprises is one of distributing and redistributing the newly added value created by workers. In Marxist economic theory, the value of means of production is merely transferred in the process of production, without creating new value. The newly added value of products comes from the accumulation by living labor. In publicly owned enterprises, the newly added value is usually distributed as follows: some to the state as taxes to finance public spending, some as accumulation to fund expanded reproduction, and some as consumption funds for individual workers and the collective.

About the redistribution of accumulation, a specified portion of it should be spent by the state centrally to finance key projects and another specified portion should be retained by the enterprise as its self-accumulation to fund self-transformation and development. These issues will not be discussed here for the time being. Similarly, consumption involves the question of redistribution.

Socialist enterprises practice distribution according to work. That is a basic principle. Under a socialist commodity economy, nevertheless, we cannot, with the exception of self-employed workers, do what the writers of Marxist classics then envisioned—make the labor of a worker directly a part of overall social labor and then have him obtain from society a percentage of means of consumption determined in accordance with the amount of labor he produces. Given a commodity economy and socialized mass production, society cannot directly practice distribution according to work with individual workers. It can only measure and determine the amount of labor provided by the labor collective of an enterprise in accordance with the fruits of labor supplied to society by

the enterprise as a whole and with the average social necessary labor. When it comes to actually implementing the principle of distribution according to work, we must first determine the amount of consumer goods to be distributed to an enterprise based on the amount of labor it has provided. Then the enterprise will redistribute the overall amount of consumer goods within the enterprise in accordance with the magnitude of each worker's contribution. This is the principle of "two-tier distribution according to work."

In theory, the most logical mechanism for implementing "two-tier distribution according to work" is by pegging the total amount of consumption funds to the newly added value (i.e., net asset value) created by the enterprise and fixing total consumption funds as a certain percentage of net asset value. A different percentage should be set for each industry. The total consumption funds would then fluctuate as the net asset value rises and falls. There would be neither ceilings nor floors.

The total consumption funds of an enterprise must be redistributed—some to finance collective consumption (including miscellaneous collective welfare expenses, but excluding the construction of welfare facilities) and some to go to the consumption reserve fund to be used to regulate surpluses and shortages. The bulk of the remainder will be retained by the enterprise to be distributed in various forms to individuals according to work, including wages, bonuses, and allowances.

The 3d Plenum of the 12th CPC Central Committee laid down two principles regarding wage reform, namely that the total payroll of an enterprise should be pegged to its profits and that internal distribution within an enterprise shall be decided by the enterprise on its own. These two principles essentially embody the system of "two-tier distribution according to work." As for what economic indicators should be used in pegging and how, that has yet to be further explored in practice. In the course of reform, a variety of indicators has appeared that use "wage content" in calculating the total payroll. They too embody the principle of "two-tier distribution according to work." Some enterprises are trying out a system of "distribution of profit minus cost" and a system of "distribution according to net sales asset value," which fulfill the principle of "two-tier distribution according to work based on net asset value." All this experimentation in practice has had some success, even though many problems still remain in detailed implementation methods. However, practice has proved that the principle of "two-tier distribution according to work" is a prerequisite for reforming the distribution system.

Socialist enterprises must adopt the principle of all-round material interests so that workers concern themselves with all their enterprise's production and operational activities out of consideration for their own material interests. Since it makes the worker take his individual labor contribution seriously as a result of this



direct material linkage, distribution according to work is clearly the most important part of the principle of all-round material interests. However, it is not enough by itself. There must be other practices to promote the worker's interest in the fruits of labor and the economic results of the enterprise collective (including the team or group collective, workshop collective, and all the way up to the entire enterprise collective.) Thus, while distribution according to work dominates distribution in socialist enterprises, it should be supplemented by other forms of distribution. Some enterprises practice business accounting at different levels or establish an economic responsibility system in different departments and at different levels, thereby linking workers' earnings not only to the fruits of their labor, but also to other economic indicators. In the process, distribution according to work is broadened. Other enterprises turn workers into shareholders by allowing them to buy shares which have fixed equivalent value or which have fixed equivalent value plus a small amount of fluctuating value. Apart from distribution according to work, the worker also receives dividends depending on the number of shares he owns. Thus he is not only a collective producer and operator, but also a direct collective owner. Prompted by material interests, he pays attention to the development of the enterprise and its profits and losses. These reforms create a community of interests between the worker and the enterprise and will surely intensify the working masses' sense of being in control. And when all is said and done, the improvement and development of enterprise productive forces depends on the initiative, creativity, and enthusiasm of all workers, mental as well as physical.

## 5. The Leadership System of Socialist Enterprises<sup>14</sup>

The leadership system of an enterprise is related to its entire set-up. Different ownership systems and operational formats inevitably require different leadership systems. When an enterprise adopts the legal person system, it also needs a leadership system to match. The nature and size of an enterprise, too, influence its choice of a leadership systems. It follows that socialist enterprises cannot all adopt one single leadership system.

For a long time, the leadership system of an enterprise fully owned by the whole people consisted of a factory director responsibility system under the leadership of the party committee and the workers' congress. That system has undergone successive reforms in recent years. In 1986 the CPC Central Committee and the State Council promulgated three regulations resolving that enterprises owned by the whole people adopt a factory director responsibility system. This solved the problem of separating party from government and was a major step forward in enterprise leadership system. Be that as it may, some problems remain which have yet to be further addressed.

It was pointed out at the 3d Plenum of the 12th CPC Central Committee that revolving around enterprise revitalization were two relationships that must be sorted out, namely that between the state and enterprise and that between the enterprise and workers. The leadership system of an enterprise is exactly the tangible manifestation of these two relationships. Enterprises with dissimilar ownership systems, operational formats, and leadership systems necessarily differ completely in the way they handle these two relationships, as shown in the table below.

Form of enterprise	Owner's power	Enterprise power	Production of enterprise leader	Nature of enterprise leader	Power of enterprise leader	Function of decision-making body	Function of workers
A1 state-owned, state-operated	directly makes operating policies	executes operating policies	appointed by state	manages enterprise on behalf of state	proposes operational plan, executes orders from above	consultation	takes part in deliberations, supervision
A2 state-owned, director responsibility system	review, approve operating policies	formulates policies	appointed by state or recruited	legal person representative, actually represents state	same as above	same as above	same as above
A3 state-owned, individually-run	lays down terms for individual contracting, leasing	self-management	hired by state	individually accountable to state	self-management	optional	supervision
A4 state-owned, collectively-run	lays down terms for collective contracting, leasing	same as above	hired by collective	legal person representative, accountable to state, society on behalf of enterprise	operational decision-making	strategic decision-making	strategic decision-making, supervision

Form of enterprise	Owner's power	Enterprise power	Production of enterprise leader	Nature of enterprise leader	Power of enterprise leader	Function of decision-making body	Function of workers
A1 state-owned, state-operated	directly makes operating policies	executes operating policies	appointed by state	manages enterprise on behalf of state	proposes operational plan, executes orders from above	consultation	takes part in deliberations, supervision
A2 state-owned, director responsibility system	review, approve operating policies	formulates policies	appointed by state or recruited	legal person representative, actually represents state	same as above	same as above	same as above
B,C collectively owned, run		self-management	selected by collective	legal person representative, accountable to society on behalf of enterprise	operational decision-making	strategic decision-making	strategic decision-making, supervision
D,E,F,G,H owned by shareholders, run by experts	general planning	independent management	appointed by board of directors	legal person representative, accountable to state, society on behalf of enterprise	operational decision-making	strategic decision-making	participates in policy-making, supervision
D,E,F,G,H owned by shareholders, collectively run	same as above	same as above	elected board of directors, leader appointed by board of directors	same as above	same as above	same as above	strategic decision-making, supervision

The factory director responsibility system provided for by the three resolutions now in effect has gone a long way toward solving the problem of party-government fusion. Because of the following issues, however, further improvements through reform are necessary.

First, existing work rules for the factory director still leave some grey areas in delineating the jurisdictional boundaries between the state and the enterprise. The enterprise remains subordinate to the "department in charge above" and must "execute the decisions of the department in charge." It can exercise decision-making power only within its jurisdictional limits, but such limits are not clearly defined. The factory director is appointed and dismissed by the higher authorities. The appointment of factory-level deputy cadres must be reported to the higher authorities for examination and approval. Other than party-government separation, therefore, government-enterprise relations actually are not all that different from those in state-owned and state-run enterprises. Government and enterprise have not been completely separated from each other.

Second, in enterprises which practice contracting and leasing, the contractor or lessee enjoys greater operational decision-making power. But individual contracting or leasing only reduces further the already meager power of the rank-and-file worker. In effect, a new employer-employee relationship will arise between the contractor or lessee and the rank-and-file worker, hampering the realization of the superiority of socialism. Collective contracting or leasing may overcome this defect.

Third, it is stated in the factory director work regulations that the enterprise is a legal person and factory director the legal person representative. But the regulations fail to provide for a legal person organization. In effect, the factory director manages the enterprise on behalf of the state as in a state-run enterprise, instead of representing the enterprise legal person, so he is not really a legal person representative. An individual leasing or contracting system falls short of meeting the requirements of the legal person system even further. Only by adopting collective contracting or leasing and establishing collectively-owned or shareholding enterprises can we achieve the enterprise legal person system.

In the future, socialist enterprises should apply the principle of democratic centralism and establish a highly centralized director (manager) responsibility system on the basis of democratic decision-making, thereby uniting the initiative of the worker as master with the authority of management experts. This is where the leadership of a socialist enterprise is headed in the future. As for the detailed formats, they must vary with the nature and size of the enterprise. No uniform model should be imposed across the board.

## 6. Horizontal Associations of Socialist Enterprises<sup>15</sup>

From the overall national economic perspective, large, medium-sized, and small enterprises, each with their characteristics, must coexist with one another while pursuing balanced, coordinated, and joint development. In China, however, the low level of production socialization and fragmentation, results of the old system, have seriously prevented economy efficiency from improving.

As the socialist commodity economy matures and develops, enterprises will come to enjoy more decision-making authority. Inevitably horizontal inter-enterprise linkages and associations will proliferate rapidly.

Since 1979, when the state called for industrial reorganization and enterprise consolidation based on the principle of specialization and cooperation, a host of joint production bodies have appeared. They have achieved remarkable success. But the old system under which the state directly manages enterprises by administrative decree has remained basically unchanged. Large numbers of so-called "administrative companies," concerns created by mergers on order from above, have cropped up across the nation. Although the State Council issued a directive in 1980—"protect competition, promote consolidation"—and demanded that enterprise mergers comply with the principle of voluntarism and mutual benefit, the order was not carried out in earnest. In the subsequent government reorganization, yet another host of "rehashed" companies—former government bodies reappearing in the guise of companies—emerged, greatly hampering the effort to expand enterprise decision-making authority. In 1986, the State Council again issued a number of regulations regarding horizontal enterprise association, reiterated that enterprise combination must be based on voluntarism and mutual benefit, and set a deadline for the localities to abolish their administrative companies. This move proved more helpful to enterprises which opted for merger voluntarily and a host of fairly large corporations appeared. In 1987 the State Council approved the formation of 10 national corporations and gave them province-level decision-making authority. (That is, departments in charge were abolished and the plan would be issued directly by the State Planning Commission.) With the abolition of administrative companies, some sectors and localities have put together a number of corporations that resemble such companies, the aim being to continue to keep the enterprises directly subordinate to them.

A brief review of the history of enterprise consolidation reveals success stories as well as teaches us the lesson that the old system dies hard. How to standardize enterprise consolidation in a way that is consistent with the objective law of historical development remains an important topic in enterprise reform.

Judging from the development law of enterprise consolidation, it takes place at roughly three levels. In the beginning, there was specialized, cooperative joint production. What started out as a loose association in a small area developed into a close one in an expanded scope. Associations genuinely based on voluntarism and mutual benefit usually result in productivity gains and cost savings. Building on this, some enterprises graduated to production-selling combination, consolidating production, supply, and marketing completely. The well-known "East Wind Auto Industrial Joint Co." for instance, consists of Auto Plant No 2 as its core and

"East Wind" cars as its flagship products. It combines production with supply and marketing totally and operates in the nation's 26 provinces, municipalities, and autonomous regions.<sup>16</sup>

Combination at the two above-mentioned levels, however, has one prerequisite—three constants (unchanged subordinate relationship, unchanged tax revenue channels, and unchanged ownership system.) Thus this kind of combination has a high degree of built-in instability. A new trend nowadays is to build on consolidation on the second level—joint production and operations—and push it to a third level where the three constants are discarded and capital and assets are pooled. The corporation should take this advanced form of association.

The corporation should have a precise definition. If a collection of enterprises can set up a corporation simply by putting their signature on a piece of paper even in the absence of any intrinsic economic linkages or when they are only loosely associated, then the country will be crawling with corporations. Last year we shook up administrative companies. It will not be long before we do likewise with corporations.

The hallmark of a corporation must be the consolidation of funds and assets. Moreover, it should be the combination of more than two corporate legal persons. The core layer of a corporation is the merger of enterprises through a consolidation of assets. Enterprises which merge voluntarily give up their legal person status and join together to form a corporate legal person. Yet the formation of a company through merger alone does not constitute a corporation. It only creates a larger company. A corporation is created only when more than two legal persons combine. Apart from the core layer, therefore, a corporation needs a close layer, consisting of subsidiaries formed by the consolidation of investment or assets and controlled by the parent company and of the subsidiaries of subsidiaries, in which the subsidiaries have a controlling interest. These subsidiaries are independent legal persons, not "second-class legal persons." Legal persons are equal and exist independently. The control exercised by the parent company over its subsidiaries is not that of a legal person, but derives from the parent company's control of the subsidiary's shares. A corporation also may have a semi-close layer consisting of enterprises in which it has enough investment to give it a certain influence but not enough to give it a controlling interest. On the periphery of the corporation is a loose layer consisting of numerous permanent cooperative or marketing enterprises. The corporation has no investment and owns no shares in these enterprises. They may extend each other short-term loans, but essentially theirs is a permanent production-supply-marketing cooperative relationship.

The hallmark of a corporation is fund consolidation. Thus its core layer and close layer must get rid of the "three constants" and subordinate themselves to the

corporation so that the latter can conduct comprehensive planning, deploy its human, financial, and material resources in a unified way, carry out socialized production on an even larger scale, promote technological progress, and achieve the proper economies of scale.

To sum up, publicly-owned socialist enterprises will take diversified forms. As the commodity economy develops further and enterprise reform intensifies, an enterprise will not stick to one model permanently either. Whatever model it chooses, however, a socialist enterprise should do its best to demonstrate the basic attributes of socialism and modernize its management standards so that the potential superiority of socialism is tapped.

The creation and development of socialist enterprise models requires tens of thousands of entrepreneurs armed with socialist ideology and modern scientific, technological, and managerial knowledge. They are both members of the labor collective and leaders supported by the rank-and-file worker. The tidal wave of economic structural reform will certainly turn out batch after batch of this kind of new socialist entrepreneur. A match for their foreign counterparts in operating and managing an enterprise, they also have an uncanny knack for tapping and exploiting socialist superiority. By relying on these new entrepreneurs to lead an army of workers filled with a sense of responsibility that goes with being in control, socialist enterprises will surely triumph over capitalist enterprises. A model for socialist enterprises with Chinese characteristics will stand tall among advanced enterprises in the world. (End of Part 2. To be continued.)

#### Footnotes

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#### FINANCE, BANKING

**Agricultural Bank Work Conference on Supporting Coastal Development**  
40060368 Beijing ZHONGGUO XIANGZHENQIYE  
BAO in Chinese 25 May 88 p 1

[By Mo Xiaomin 5459 1420 3046]

[Text] In order to speed up the implementation of the plan for coastal economic development, the Agricultural Bank of China recently convened a conference, in the city of Dongwan in Guangdong, of bank presidents from the branch banks of the coastal provinces and cities. The conference summed up the last few years' experience in rural banking's support of production for export and earning foreign exchange; and also formulated related policies for seizing the opportune moment in supporting coastal export-oriented economic development and deepening financial reform in rural areas.

In the last few years, the Agricultural Bank and credit agencies have done a large amount of work in supporting the export production of town and township enterprises.



According to statistics on Guangdong, Zhejiang, Shanghai, Jiangsu, Shandong, Hebei, Tianjin, Beijing and Liaoning, by the end of 1987, the Agricultural Bank and credit agencies had supported 10,300 town and township export enterprises. These account for 85 percent of the foreign currency producing town and township enterprises. The total value of the output of these enterprises is more than 19 billion yuan, and among them the amount of foreign trade purchases is 10.38 billion yuan. The amount of foreign currency produced was \$2.6 billion. Also there were 63,000 individually-owned, foreign exchange earning enterprises that received support from agricultural banks and credit agencies. In 1987 the remaining sum of loans to be made up by town and township export enterprises was 4.78 billion yuan. According to forecasts, this year the amount of foreign trade purchases from those coastal town and township export enterprises that are supported by the Agricultural Bank and credit agencies will reach 16.75 billion yuan. The amount of foreign currency produced will be \$14.25 billion. The difference from last year will be an increase of 61.4 percent and 61.2 percent. The remaining amount of loan to be made up will increase by 41.4 percent. The economic benefit of the loans is now progressively increasing.

The conference, on the basis of this summed-up experience, laid down the following basic tasks for rural coastal finance:

The first is to raise capital funds through many channels, and run good credit, accounting and information services that are comprehensive. This is in order to gradually increase the proportion of loans to operations that produce export goods.

The second task is to participate in the program that the government departments concerned have formulated for developing each region's export goods; and develop production for export of agricultural and agricultural sideline products and of town and township enterprises' manufactured goods and all types of enterprises' manufactured goods. The composition of export products must be adjusted, a base for trade, industrial, and agricultural exports established, and export enterprise groups fostered.

The third is to unify the banking industry to help the export enterprises to improve their operations and management, to speed up the turnover rate of capital, to reduce the cost of earning foreign exchange, to advance technological improvements, to raise the product quality, and increase the competitiveness of export products in the international marketplace.

The fourth is to continue to reform the rural finance management system which is not adapted to domestic merchandise production and export-oriented economic development; to establish a rural finance system that is adapted to the new type of rural economy; to expand

business, to improve management; to make rural finance in the coastal regions and the open economic regions into a window for the financial rural reform and opening up of the entire nation.

The fifth is to carry out the economic, finance, and foreign trade macro-control policy of the country, and correctly handle the relationship between the coastal region and the interior, the relationship between the domestic market and the international market, the relationship of the direction of exports and import substitution, and the relationship among trade, industry, and agriculture and between rural banks and other banks. This is to undertake the task of indirect government supervision and of regulating export-oriented economic development.

In order to accelerate the export production of the coastal region's town and township enterprises, the China Agricultural Bank has decided to practice a flexible and loose policy towards coastal town and township enterprises.

Firstly, they will implement the "save much, loan much; save little, loan little" method. For those town and township enterprises which have had good results, which can earn foreign currency, and which satisfy the requirements for the loans, the agricultural banks and credit agencies can give priority to them in giving out loans.

Secondly, they must implement the "30 percent/70 percent scale" management. In the open economic zones, the loans to town and township enterprises for equipment can be granted according to 30 percent of that year's newly added credit of the town and township enterprise.

Thirdly, for the "three forms of processing and compensation trade", town and township enterprises, their loans for facilities can be paid back in one year. This can be administered based on loans to circulating capital.

These three measures, along with the newly added credit put in, will be beneficial in speeding up the technological reform of the coastal town and township enterprises, and in strengthening the ability to earn foreign exchange through exports.

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## SMALL-SCALE ENTERPRISES

### Development of Township Enterprise in Underdeveloped Areas

40060366 Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
Chinese No 5, 23 May 88 pp 33-35

[Article by Fang Cheng 2455 2110 of the China Agricultural Bank, Guangxi Regional Branch: "Exploring Approaches to the Development of Township and Town Enterprises in Underdeveloped Areas"]

[Text] Vigorous development of town and township enterprises is becoming an increasingly important strategic mission for the economic development of China's



underdeveloped areas. Because the natural, economic, and social conditions of underdeveloped areas are utterly different from those of developed coastal regions, their development of town and township enterprises can under no circumstances copy the developed areas as models for success. Instead, they should start from their own special characteristics and find a feasible approach. This article will attempt to address this issue based on the realities of the underdeveloped areas.

## I

In exploring the development of town and township enterprises in underdeveloped areas, we should first study the economic and geographical environment and conditions on which they depend, as well as certain specific characteristics which are manifested therein. This is the starting point for studying the course of development.

First, the rich natural resources possessed by underdeveloped areas are a good material base for development of town and township enterprises. The underdeveloped area of Western China can be said to have the richest natural resources in China at present. This area makes up two-thirds of China's land area, and has over 95 percent of China's rare-earth metal and over 97 percent of China's sylvite, as well as the principal deposits of ferrous and nonferrous metals; only five minority nationality autonomous regions contain about 350 million kilowatts of hydroelectric power, accounting for 50 percent of the whole country's hydroelectric power. Taking only Guangxi as an example, it has a preponderance of such resources as construction materials, mineral products, subtropical crops, marine products, hydroelectricity, forests, and tourism. It has 32 types of mineral product reserves which rank in the top six worldwide. The development of town and township enterprises in underdeveloped areas cannot be separated from these resource conditions.

Secondly, there are very conspicuous contradictions with regard to the agricultural surplus labor force in underdeveloped areas. According to estimates, the surplus labor force in Guangxi has currently reached 9.36 million, or about 65 percent of the total rural labor force. Generally speaking, resolution of the problem of the agricultural surplus labor force often becomes the earliest motivating cause of the development of town and township enterprises. On the one hand, a large agricultural surplus labor force becomes the essential condition for putting town and township enterprises into operation in underdeveloped areas, while on the other hand it also requires adjustment of the labor structure, because of strong social pressure. Town and township enterprises in underdeveloped areas undoubtedly must take on this job.

Thirdly, underdeveloped areas are typically agricultural or stock-raising areas, lacking a completely functioning urban community of proper scale, and thus lack strong diffusion of urban economy and technology. Guangxi,

for example, currently has no cities with populations over 1 million, and small and medium-sized towns are very few and far between, with an average of only 1.22 towns per county, 1.38 less than the national average of 2.6. The urban and township population (non-agricultural population) accounts for only 12.2 percent of the population for the whole region, far below the national level of 23 percent. Even with regard to the existing cities, their urban functioning is unsound, and their radius of diffusion is short. Clearly, the current condition of weak economic ties between city and rural areas in underdeveloped regions is highly disadvantageous to the development of town and township enterprises.

Fourthly, town and township enterprises in underdeveloped areas got started late, their level is low, and they currently face many actual difficulties, displayed in such aspects as the overall low quality of the enterprises, the backwardness of the management level, lack of funds, and the inadequacy of economic returns. According to statistics, for town and township enterprises of the nation as a whole, there are, on the average, nine scientists and technicians for every 10,000 staff members and workers, but in Guizhou there are only two, and in Guangxi only three. In Guangxi, there is not one high-level technician in the whole town and township enterprise system, and of the middle-level technicians, only 467 have received a secondary school education; on the average, there is only one technician for every 19 enterprises, and among these, there are six localities whose town and township enterprise systems are without even one middle-level technician.

In short, town and township enterprises in underdeveloped areas have grown up in a specific rural environment, and display their own specific characteristics; getting a grasp of these characteristics will be helpful to us in studying and inquiring into an approach to development of town and township enterprises in underdeveloped areas.

## II

Based on study and assessment of all aspects of town and township enterprises in underdeveloped areas, I believe that these enterprises should take an approach toward development which is suited to the particular features of the area, and is imbued with the area's distinguishing characteristics. The special character of this approach is reflected in the following aspects:

1. The industrial structure of town and township enterprises in underdeveloped areas should be primarily resource-intensive and labor-intensive for a relatively long period of time. Carrying out development of these enterprises has amply shown that only those enterprises which are based on the region's dominant resources, and are devoted to developing those resources, are rich in vitality and vigor. For example, many underdeveloped areas can develop vigorously by making the agricultural

(or stock-raising) byproduct processing industry (especially the food industry) the leading or guiding industry. Generally speaking, this type of industry has products with high volume and high resilience, and a great deal of market demand (food expenditures account for about half of the people's consumption expenditures); it is also light industry, having the characteristics of little investment, quick results, and good returns. In the food industry, for example, every \$100 of fixed assets creates twice as high an output value as heavy industry, and one-third higher than the light industry system as a whole. According to comparison and analysis by the state of the economic returns this year of various products of town and township enterprises, the economic returns of the agricultural processing industry are the best. Moreover, the technical requirements of this type of industry are not high, its production technology is relatively simple, and it is conducive to the spread of intermediate technology; thus, it is suited to the current rural production level of underdeveloped areas (especially the technical level). In addition, this type of industry can accommodate a relatively large labor force, which is of very great practical significance to the transfer and disposition of the agricultural surplus labor force.

2. The ownership structure of town and township enterprises in underdeveloped areas should be multilevel, with township management, village management, household management, and combined household management acting as four wheels turning together. In the near future, household-run and combined household-run enterprises can be made the focal point of development. Practice has shown that jointly managed and individual enterprises in underdeveloped areas clearly surpass township- and village-level enterprises, both in terms of the increase in the number of enterprises and the number of staff and workers, as well as in terms of the increase in gross revenue. In Guangxi, for example, from 1984 to 1986, gross revenue of township and village enterprises increased 50.44 percent, and employment dropped 2.21 percent, while during the same period the gross revenue and employment of jointly-managed and individual enterprises increased 303 percent and 590 percent respectively. In 1986, the gross revenue of township and village enterprises accounted for only 41.02 percent of the gross revenue of the town and township enterprises of the entire region, while the gross revenue of jointly-managed and individual enterprises accounted for 58.8 percent. In Guizhou, the output value of household-run and combined household-run enterprises reached 62.7 percent of the output value of the whole province's town and township enterprises. Moreover, judging from many localities, the economic returns of jointly-managed and individual enterprises are better than those of township and village enterprises. Evidently, the household-run and combined household-run enterprises in underdeveloped areas have more vitality than township and village enterprises in those areas, and will become the focal point for development of town and township enterprises in many areas in the near future.

3. The fund structure of town and township enterprises in underdeveloped areas should be primarily internal collection, supplemented by introduction of funds from elsewhere. The fund strength of town and township enterprises in underdeveloped areas is currently very weak, with a severe shortage of their own funds. According to statistics of Guizhou, Yunnan, and Guangxi provinces, loans make up 114 percent, 102 percent, and 99.5 percent respectively of the working capital of the town and township enterprises of these provinces. This means that the portion made up of the enterprises' own funds is basically equal to zero (according to regulations, an enterprise's own funds must account for 30 percent before loans can be provided); it also shows that the nation's loan conditions for town and township enterprises in underdeveloped areas are very lax. Taking a long-range view, it is clearly unacceptable for town and township enterprises in underdeveloped areas to be overly dependent on importation of outside funds for their support. These enterprises must, therefore, gradually cultivate and strengthen a self-support mechanism, making internal collection the primary source of funds. One form of internal collection is collection from existing enterprises. town and township enterprises in underdeveloped areas are at the "take-off" stage, and should strengthen their accumulation mechanism. There is currently a rather serious trend among some enterprises (especially contracting enterprises) toward short-term behavior, such as pursuing transitional consumption and stressing the increase of near-term welfare expenditure; the impetus for productive accumulation is inadequate, and funds for expanding reproduction are generally scarce; it is therefore, difficult for enterprises to acquire the ability for self-transformation and self-development. In resolving this problem, we should start with rational distribution of enterprise profits, and curb the phenomenon of excessive commissions; at the same time, concerned departments must adopt effective measures to perfect a restriction mechanism for distribution of the revenues of town and township enterprises, and control overconsumption, allowing town and township enterprises to stress long-term stability and development. The second form of internal collection is collection of funds from the masses. Through various forms of fund collection activity, the large amount of idle capital in the countryside is drawn into newly-established enterprises, and attention is paid to unified planning and rational investment. In addition, funds must be brought in from elsewhere, including both foreign and domestic funds. Underdeveloped regions are rich in natural resources, and only by implementing policies and profit distribution methods more favorable than those of developed areas, and improving the investment climate, can funds be attracted from developed areas, and the development of town and township enterprises be expedited.

4. The market structure of town and township enterprises in underdeveloped areas should be open, based mainly in the local area, developing across the whole country, and proceeding to break into the international market. These enterprises should take the approach of

developing the market, technology, and financial sources. With the market as a guide, they should vigorously develop lateral integration, bring in and assimilate the advanced technology, equipment, and management experience of developed areas, and through foreign and domestic diffusion, develop superior industries with local characteristics, forming "first" products which are relatively competitive. It should be recognized that the latent capacity of the vast rural market of underdeveloped areas already offers outstanding opportunities for dumping the products of town and township enterprises. Generally speaking, the regional market's transparency is a little better, and its business risks a little fewer, and thus it is a suitable market for most town and township enterprises to devote themselves to opening up.

Taking a long-range view, town and township enterprises in underdeveloped areas should aim at the international market, participating in international competition with high-quality products. Such lines of products as the Osmanthus brand sanitary flush valve manufactured by the Da An Township Plumbing Equipment Factory in Pingnan County, Guangxi, sell well not only everywhere in China, but also in 16 other countries and regions in Southeast Asia, the U.S., Europe, and elsewhere. In Guangxi's Rong County, a poultry company organized by town and township enterprise "exports one million roosters overseas" annually, getting in return U.S. \$1 million in foreign exchange.

5. Town and township enterprises in underdeveloped areas should gradually reform their enterprise management systems, building a highly efficient system of economic operations. The movement mechanism of town and township enterprises in underdeveloped areas is less efficient than that of developed areas. First, against a background with a strong community tinge, autonomy of most enterprises is limited; there is no separation between government and enterprise, and there is a serious problem of excessive interference by the government, causing a lack of enterprise vitality. Secondly, the distribution mechanism is highly imperfect; a fairly widespread situation is for the township and village-level governments to take too large a share of the profits, generally over 50 percent, and sometimes as high as 70 percent. Some localities even pay fixed amounts to the higher authorities, which seriously endangers development aftereffects. It is therefore necessary to attach importance to microeconomic reform of town and township enterprises. The basic train of thought is, as follows:

(1) Changing the decision-making structure from one in which decision-making is concentrated at high levels to a democratic decision-making structure. Town and township enterprises are classified as a "market-type" economy, and their management activities are even more directly controlled by price laws, with the result that it is objectively required that nationally-owned enterprises have even greater decision-making rights over microeconomic activities, becoming the principle part of market movement, in order to indirectly make acute positive responses to the market.

(2) The distribution system should be reformed in two ways: first, deal with the distribution relations between the state (town and township government and relevant leading departments at the central level) and enterprise; secondly, within the enterprise, link the staff and workers' benefits to the labor results.

(3) Develop many types of information channels, and put forth efforts to increase the effectiveness of various kinds of information. In order to do this, the relevant departments at the central level must take positive action, and other rural economy departments (such as banking, commerce, and tax collection) should also take the initiative in cooperating by providing information services for the scientific decision-making of town and township enterprises, and promote the normal functioning of their movement mechanism.

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#### Henan Township Enterprises Encounter Shortage of Capital

40060364 Zhengzhou HENAN RIBAO in Chinese  
22 May 88 p 1

[Text] In the last few years town and township enterprises in Henan Province have been developing, and have become a vital component of the rural economy and the entire national economy. Not only have we supported our expanding rural market, we have also supported the development of agricultural production and encouraged the transition of the overall village economy to become more commodity oriented. However, at present, the condition of the development of Henan's village enterprises is quite difficult. Many enterprises lack capital. One primary reason for this is that the apportionment of profit that they must turn over is large, and they are allowed to retain only a little. Especially when there is a lot of administrative interference, the enterprises have little self-determination. This March we inspected enterprises in 42 townships in 13 counties to determine the 1987 status of profit distribution. These are the results:

Net profit taken in was 4.0697 million yuan - a 19 percent increase over last year's figure of 3.4097 million yuan. Of this amount, 1) 1.421 million yuan was turned over to the responsible departments, or 34.9 percent 2) Payment on loans was 585,100 yuan, or 14.4 percent 3) Shared out bonuses and business costs were 130,000 yuan, or 3.2 percent 4) Retained profit was 1.8213 million yuan, or 44.7 percent.

Of the retained profit, the enterprises used 652,900 yuan, or 36 percent as floating capital, 192,100 yuan, or 10.5 percent as bonuses, 115,300 yuan, or 6.3 percent for the community welfare and for worker education.



From the distribution of enterprise profits we can see that of the net profit earned in 1987, over  $\frac{1}{2}$  was turned over to the responsible departments, and was apportioned, and adding in payment on loans, shared out bonuses and business costs, these three areas combined occupied 52.5 percent, so the amount of profit retained by the enterprise was not even  $\frac{1}{2}$ . At present, town and township enterprises are just starting to mobilize. Originally, capital was seriously insufficient mainly because of loan payments (loan payment expenses for the year were 1.05 million yuan, taking up 4.06 million yuan, or 25 percent of annual net profit.) As far as production management goes, some township governments and related offices are using the "kill the hen to get the eggs" method. From all sides demands are placed on the enterprises for money, appropriations are forced out of them and resources are equalized. In this way a situation is created where the enterprise retains little and a lot is carried off, forcing the enterprises which are in extremely difficult conditions to move with difficulty, seriously affecting the end result of production, and restricting the expansion of production and improvement in economic efficiency.

In 1987 the enterprises in a certain village of Meng Jin County made 30,000 yuan. At the beginning of the year the village government decided that this year 4,500 yuan should be turned over, but by yearend the village authorities changed the original regulation, and asked instead for 10,000 yuan, to defray some other expenses with appropriation funds and to give gifts to some work units and individuals. The result was that only 2,000 yuan remained with the enterprise. The next year the enterprise had to rely on loans in order to continue production.

A factory director in one of the villages in Nan Yang County said "In 1987 the village government took 360,000 yuan from my factory at one time, which they used for bonuses for the village government. But I, the factory head, didn't know of this at first. I only heard of it after the fact. In order to develop business our plant bought a small automobile, but the village government used it for a long time and didn't return it to us. Last year a factory head from Shanghai came to our plant to do business. That day it rained very hard, and my only choice was to take the visitor 6 li on my bike to his hotel, and because of this, our contract with Shanghai was negatively affected. Last year our factory reached the limit of economic difficulties. For three months the workers didn't get paid, but nobody in the village government took the least interest in the situation."

A responsible person in an enterprise in one county said, "The business division conferred on my factory the title of "Reliable Enterprise", which caused us to have to pay 5,000 yuan."

An enterprise in Xu Chang City in one county reported that when delivering gifts to the telephone-telegraph office, they forgot to give anything to the telephone

operators' group. The result was that the enterprise was subsequently always cut off by the operators when placing telephone calls. After discovering this, they sent a gift, and this got rid of the problem. It was this same telephone-telegraph office that, at the end of 1987 purchased and sent to the enterprise 160 volumes of the first half-year's Henan Judiciary, and an average of two copies of the birth control magazine for each worker. The enterprise did not dare to refuse to buy them, saying: "Town and township enterprises are like child brides. In difficult times, one enterprise has two mothers (business and taxes), and a pack of wolves follow behind."

Many town and township enterprises build themselves up from conditions of severely deficient capital and poor equipment. When determining policy regarding profit distribution, related departments should establish preferential policies, and clearly rule that the enterprise should retain more, thereby providing a mechanism for the enterprise to recuperate and grow, and providing conditions for the enterprise to enlarge and continue production, improve techniques and obtain new equipment. The village and town should determine a reasonable ratio for their portion. The villages and towns that have invested should draw their amount according to the amount invested, and the enterprise would pay interest to the collective on borrowed funds. Those villages and towns that don't invest can only appropriately take funds to be used to bolster agriculture and to develop funds for projects related to the community welfare. The rate of appropriations positively must not exceed the capabilities of the enterprise to bear it, or it will influence the normal production of the enterprise. The reaction of Meng Jin County put it very well—at present the majority of town and township enterprises are strong on the outside and hollow on the inside. Even though they are earning money, there is not much left in after the detrimental cycle of borrowed funds—production—reaping profits—expenses. The "kill the hen to get the eggs" method is not adequate.

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## FOREIGN TRADE, INVESTMENT

### Call for Increased Trade Between Inner Mongolia, USSR

40060471 Hohhot NEIMENGGU RIBAO in Chinese  
13 May 88, p 4

[Article by Lin Weiran 2651 5588 3544, Deputy Director Inner Mongolian Advisory Commission: "Several Thoughts About the Ulanqab League's Development of Foreign Trade. Publication of Excerpts From Statements Made at the Ulanqab League and the Wu Hai City Reform Pilot Project Zones Discussion Meeting"]

[Text] Editor's Note: On 26 and 27 April, the Ulanqab League Commissioner's Office, the Wuhai City Government, the Inner Mongolian System Reform Committee, the Inner Mongolian Academy of Social Sciences, the

Radio Broadcast and Television Department, and the Inner Mongolian Daily jointly convened the Ulanqab League and the Wu Hai Reform Pilot Project Zones Discussion Meeting. Nearly 30 comrades made statements at the meeting. Taking the liberalization of reform as their overall guiding thought, they testified in detail to the important political and economic significance of developing the pilot project zones for reform. They emancipated their thinking, dared to sweep aside ideas not in keeping with the development of productivity, and put forward numerous rather sensible suggestions that will be an inspiration to reform in other places. Excerpts of their statements are published in two sections for reference.

The following several problems require solution in order for the Ulanqab League pilot project zone to develop foreign trade.

(1) Ideas have to be updated. Product economy ideas of one area supplying the needs of another have to be eradicated, and commodity economy ideas have to be established and strengthened. A correct understanding of the problem of expanded border trade requires a clarification of perceptions about the following several problems.

Until such time as the three major obstacles between China and the Soviet Union have been eliminated, should there and can there be major development of border trade between China and the Soviet Union? I maintain that in the absence of the removal of the three major obstacles between the two countries, feasible avenues and ways of dealing with the situation should be actively explored in an effort to expand border trade. While it is engaged in reform, the USSR is inclined to be positive and to take the initiative to develop Sino-Soviet border trade. We should likewise be positive and take the initiative in our attitude and our actions. This way of doing things can only benefit the development of friendly cooperation between the two countries.

Prospects for the development of border trade with the USSR and Mongolia are by no means optimistic, because not all the things that they are able to give us are what we urgently need. The USSR's technology is not advanced. By comparison with the level of technology of other countries in the world today, in particular, the overall level of Soviet technology is not the most advanced. Nevertheless, by comparison with the level of technology in the Inner Mongolian Autonomous Region, I consider it advanced. If we are able to bring in modern advanced Soviet technology for the technical transformation of our enterprises, that will greatly improve productivity rates and economic returns, and it will increase economic strength and the financial foundation.

We have a serious shortage of funds, and neither the USSR nor Mongolia has plentiful funds either. In the development of a commodity economy, however, one cannot rule out the possibility of attracting some foreign

capital if there is a profit to be made; economic benefits can free the flow of funds. If we adopt preferential policies that enable investors to make substantial profits, we may attract some foreign capital.

(2) We have to explore flexible trade methods for developing border trade in many different ways. In addition to continuing regular talks on the signing of contracts for foreign trade, we must open border trade markets for the conduct of free trade as quickly as possible, and hold commodity trade fairs. Manzhouli should serve as the center. Both sides should open stores in the other side's cities; active discussions should be held in an effort to develop market trade between the border peoples living in some small cities and towns along the border; vigorous efforts should be made to open new markets and expand border trade in an effort to develop border trade with the USSR and Mongolia into trade in eastern European markets. The expansion and opening of markets require establishment of a business psychology of winning success through product quality and striving to obtain returns. There should be planned establishment of some export commodity production bases that can insure the on time delivery of commodities produced at low cost, that are pleasing, low in price, meet needs, and are competitive. These commodities should not only be readily salable, but they should also be able to establish a fine reputation, get a firm foothold in markets, and expand their market share.

(3) We should actively expand in the direction of economic and technical cooperation instead of engaging solely in barter trade. Emphasis should be placed on the importation from the USSR of advanced technology and equipment, and a beginning should be made in the processing of imported raw materials for foreign suppliers, processing using samples from foreign suppliers, compensation trade, and the importation of raw materials for processing. Labor may also be exported, contracts being signed with the other party for construction projects, for joint development of resources and the felling of forests, for the processing of timber, the development of aquaculture (such as in Buir Nur on the Sino-Mongolian border), vegetable production bases, and the operation of Chinese restaurants.

(4) We should use the conditions existing in Ulanqab League in the Inner Mongolian Autonomous Region, which has served as a pilot project for reform of the economic system, for the planned step-by-step building of an economic and technical development zone, with Manzhouli as its center. As the situation develops and circumstances change, the size of the economic and technical development zone should be gradually expanded at the right time. Authority should be turned over to the development zone that enables it to have a free hand in making reforms, in instituting open preferential policies that benefit the whole area, in the extensive assimilation of foreign capital and technology, and in the development of resources and the operation of enterprises either through individual investment or joint

ventures. It is particularly necessary to take advantage of the production and business potential of existing enterprises, to increase the export of commodities, and to translate abundance in resources into dominance in commodities as quickly as possible to compete in Soviet and European markets, thereby promoting and giving impetus to the more rapid development of the commodity economy in the whole league and in the whole autonomous region as well.

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### Thoughts on Developing Shanghai's Export-Oriented Economy

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[Article by Chu Yukun [0328 3768 0981], of the World Economics Institute, Shanghai Branch, Chinese Academy of Social Sciences: "Some Thoughts on Developing Shanghai's Export-Oriented Economy"]

[Text] Shanghai is China's most important open port city, and it holds a crucially important position in China's coastal development strategy. However, Shanghai's economic development has long been internally oriented. Now, in changing the internally oriented economy to an export-oriented economy, there are bound to be problems. To meet the problems head-on requires great courage and determination.

The central issue in Shanghai's export-oriented economic development is how to attract foreign investment while expanding foreign trade; properly handle relations with Japan, the United States, Western European countries, and Asia's "four small dragons"; and stimulate Shanghai's economic growth by expanding exports and earning more foreign exchange. The following are the writer's views on how Shanghai should develop and expand economic and trade relations with foreign countries.

#### I. Two Major Measures For Developing Economic and Trade Relations With Japan

The writer thinks that while energetically expanding exports to Japan, efforts should be made to further improve Shanghai's investment climate to attract more Japanese investment in Shanghai, particularly direct investment by Japanese enterprises.

First, there are good prospects for Shanghai to take advantage of the rising value of the Japanese yen to expand exports to Japan. However, we should not be overoptimistic about the prospects for exports for the following reasons.

1. The trade imbalance between China and Japan cannot but restrict the growth of trade between the two countries. The past few years have seen a downward trend. In

1985, bilateral trade totalled \$19 billion, making China Japan's second largest trading partner, next only to the United States; in 1986, bilateral trade dropped to \$15.5 billion, or the third largest; and in the first half of 1987, it dropped further to \$7.26 billion, or the sixth largest. The continuing trend of decline is bound to have an impact on Shanghai's trade with Japan.

2. China's export product mix shows that Japan imports mainly the following from China in large quantities: cotton, soybeans, petroleum and petroleum products, nonferrous metals, and fiber products. None of these is among Shanghai's major export products. It is, therefore, unlikely that Shanghai's exports to Japan can be increased to a significant extent.

3. As indicated in its export plan, Shanghai has 50 major export products. In 1985, Shanghai's export earnings totaled \$1.571 billion, which made up 47 percent of China's total exports. The target export earnings for 1990 is \$2.715 billion, a 60-percent increase over 1985. Of Shanghai's 50 major export products, few have a market in Japan. Therefore, it is rather difficult for Shanghai to expand its exports to Japan.

Despite everything, Shanghai still has some potential for growth in exports to Japan. The rising value of the Japanese yen has made Shanghai's products more competitive in the Japanese market, and Japanese consumers will like the quality and prices of the goods. For example, Shanghai's meticulously tailored suits are world-famous. With some improvements in style and materials, they certainly will be gobbled up by Japanese consumers. It is reported that Japanese importers plan to increase imports of Chinese-made suits from the present 32,000 dozens a year to 200,000 dozens a year in the next 3 years. Carrying forward its fine sartorial tradition, Shanghai clothing industry can be assured of some success in exporting suits to Japan. Moreover, linen and silk fabrics are also very popular in Japan, and Shanghai can expand linen and silk exports to that country.

In addition, various kinds of food products and beverages made in Shanghai have a rather strong appeal to the Japanese taste. If the sanitary conditions are improved at food-processing plants and attention is paid to packing and packaging to make the products more attractive, food exports to Japan can be expected to grow considerably.

Second, Shanghai's investment climate should be further improved to attract more Japanese enterprises to invest in Shanghai. This should be the focus of Shanghai's efforts to develop economic and trade relations with Japan. Judging by the current situation of Japanese investment in China or by Japan's domestic economic situation, Japanese business is showing a greater interest in investing in China, especially in Shanghai, for the following reasons.



1. Because of overcautiousness, Japanese enterprises have made little direct investment in Shanghai. According to statistics, as of June 1987, Japanese investment stood at \$202 million, just 12.4 percent of the total foreign investment in Shanghai, and putting Japan in third place after Hong Kong and the United States. It is rather unbecoming to Japan's status as the world's largest creditor nation.

2. According to a survey by Japan's Nomura Securities Co., more than 60 percent of Japan's largest enterprises want to invest in China, believe that "the Chinese market has great potentials for growth," and are particularly interested in Shanghai, China's largest industrial city.

3. In recent years, Japan has registered huge trade surpluses each year, \$100 billion in 1986, for which it has become a "target of public censure" and is criticized by many countries. Because of this, the Japanese government has drawn up a "trade surplus return" plan, which proposes to spend \$20 billion in 3 years to help developing countries of the third world in economic development. Japan also has a favorable trade balance with China, which reached a high of \$6 billion in 1985 and leveled off to \$4.18 billion in 1986. Therefore, it would be natural for Japan's "return" plan to be applied to China.

4. At present, Japan is readjusting its production structure, expanding domestic demands, and increasing imports and investment abroad. At the same time, China is striving to increase exports, use foreign funds, and import advanced technologies. Obviously the economic relationship between the two countries is mutually complementary, and there is certainly room for greater financial and technological cooperation.

For the above mentioned reasons, there is a lot of possibilities for Japanese business to make direct investment in Shanghai. Once the investment climate is improved to dispel Japanese entrepreneurs' doubts, Shanghai will become very attractive. If the scope of financial and technological cooperation between Shanghai and Japan can be expanded, it will give a powerful impetus to Shanghai's export-oriented economic development. Therefore, the writer thinks that further improvement of the investment climate to attract large amounts of direct investment from Japanese business should be one of the most important measures to be adopted by Shanghai in its efforts to develop economic and trade relations with Japan.

## II. Expanding Exports to the United States

The United States is the world's largest importer and exporter, and the capacity of its import market is beyond comparison by any other country. Therefore, all countries want to sell their goods in the United States, especially countries with export-oriented economies like Japan, West Germany, and the "four small dragons" of

the Asian-Pacific region, all doing their utmost to boost exports to the United States. To develop an export-oriented economy, Shanghai must maintain good economic and trade relations with and increase exports to the United States. A look at direct foreign investments in Shanghai shows that by the end of July 1987, there were 271 foreign-owned enterprises with a total investment of \$1.663 billion. Among the foreign enterprises, 43, or 28.5 percent, were American-owned, and their investment of \$520 million, 31.3 percent of the total, far exceeded Japan's investment in Shanghai. However, U.S. investment in Shanghai is small, compared with the \$6 billion U.S. investment in Hong Kong. It should be seen that Shanghai can do much better in attracting direct American investment.

### How is Shanghai to expand exports to the United States?

First, to expand exports to the United States, Shanghai should try to export more textiles and clothes, despite the fact that the United States has imposed a 3-percent growth limit on the quantity of textiles and clothes China can export to the United States each year, for the following reasons.

1. In the past few years, China has done extremely well in expanding export of textiles and clothes to the United States, which increased by 63 percent in 1986 and accounted for more than one-half of China's total exports to the United States, making China America's largest textiles and clothes supplier. Therefore, the United States is trying to restrict our textile and clothing exports, under the pretext of protecting American textile and clothing industries. It seems that there is no more hope for significant increases. In fact, that is not true. U.S. quotas limit only quantities. China's textiles and clothes exported to the United States consist largely of raw materials and primary products with low added value. From now on, if we can improve product quality and export more high-grade commodities, we can greatly increase our export earnings without breaking the quotas on quantities.

2. The United States is a high-consumption country. The U.S. market has an enormous capacity for high-quality goods and imports large quantities of expensive products. Clothes must be made of beautiful materials, in style, and meticulously tailored. These happen to be Shanghai's specialty. Shanghai's clothing industry has a large number of skilled workers and plenty of master tailors and dressmakers. With timely information on current U.S. fashions and consumer preferences and new styles designed accordingly, Shanghai-made clothes will sell well in the U.S. market.

3. The clothing industry is still a labor-intensive industry. The wages of Shanghai's clothing workers are just one-fifth that of American workers. Shanghai can take advantage of its low wages to cooperate with U.S. garment firms in compensation trade, producing in Shanghai with materials and styles supplied by the U.S.

firms and selling the finished products in the United States. This is equivalent to exporting labor services and can help increase Shanghai's foreign exchange earnings.

In short, Shanghai should continue to expand textile and clothing exports to the United States, but it is necessary to pay attention to quality, style, and packaging and to export more high-grade goods and less primary products of low added value. In this way, Shanghai will be able to expand textile and clothing exports to the United States at a normal rate despite U.S. restrictions on imports.

Second, Shanghai can expand export of labor-intensive but technologically simple machinery and electrical products.

Although the United States is a highly industrialized country, it still has to import large quantities of machinery and electrical products each year, which at present total about \$150 billion a year, about 23 percent of the world's total machinery and electrical product exports. China's machinery and electrical products exported to the United States total about \$100 million each year, only 0.67 percent of the total U.S. machinery and electrical product imports. Shanghai is China's largest industrial city with a fairly well-developed machinery and electrical industry. Shanghai not only can produce the technologically less sophisticated machinery and electrical products demanded in the United States, such as auto parts, small electrical machineries, small electrical appliances, etc., but can produce them at bargain prices to fully meet U.S. demands. As the Japanese yen keeps rising in value, Shanghai should seize the opportunity to export more machinery and electrical products to the United States and compete for Japan's share of the U.S. market.

There is another way for Shanghai to expand exports of machinery and electrical products to the United States—production and technical cooperation between Shanghai and U.S. manufacturers of machinery and electrical products. The Shanghai plants will produce according to blueprints provided by the American firms, and the products will be marketed in the United States or a third country. Or the Shanghai plants can produce parts and accessories to be shipped to the United States and assembled by the U.S. manufacturers. The Boeing and McDonnell Douglas aircraft companies of the United States have signed production cooperation agreements with the Shanghai aircraft manufacturing plant, under which the Shanghai plant will produce airplane parts and accessories for the U.S. companies. This kind of production cooperation should be vigorously promoted.

Third, Shanghai should vigorously expand export of labor services to the United States.

Among the developed Western countries, the United States has a rather low unemployment rate. Since the end of 1982, the U.S. economy has been growing continuously in the longest postwar economic recovery. As a

result, there is a sharp increase in new jobs and a growing shortage of manpower. This was demonstrated by a recent report that American farms planned to recruit temporary farm workers from China as a solution to their labor shortage.

Shanghai not only has plenty of manpower, but also a strong skilled labor force, especially in the field of building and capital construction. Shanghai workers have a hard-working tradition. They are intelligent and can quickly adapt to new jobs. Some of the workers and peasants have learned some English. So, if Shanghai can strengthen survey of the U.S. labor market, find out what the actual demands are, and maintain close contact with relevant U.S. organizations, export of labor services to the United States can grow rapidly. We should learn from the example of South Korea in making labor export a major measure for developing an export-oriented economy.

### III. Focus on West Germany in the Western European Market

Since China established economic and trade ties with the European Economic Community in 1975, bilateral trade has grown rapidly. However, the development has been lopsided. China's imports from the EC have grown much faster than China's exports to the EC. To expand exports to Western Europe is no easy task. From China's export product mix to the EC, we can see that very few items exported in large quantities are from Shanghai. However, it is noteworthy that trade between China and the Federal Republic of Germany has grown rapidly. In 1985, bilateral trade with West Germany rose to \$3.14 billion, more than one-third of the total trade volume between China and the EC. China exported \$730 million worth of goods to West Germany in 1985, about one-third of China's total exports to the EC. Although trade is also unbalanced between China and West Germany, the situation has been changing since 1986. In 1986, China's exports to West Germany increased 6 percent, while imports from West Germany fell 3 percent, and China's trade deficit with West Germany dropped from DM3.9 billion in 1985 to DM3.5 billion in 1986, a 10.3-percent drop. In the first half of 1987, China's exports to West Germany rose again by 16 percent over the same period in 1986, and China's trade deficit with West Germany dropped nearly 50 percent over the same period, from DM1.6 billion to DM780 million. Judging by the developing trend of bilateral trade between the two countries, the prospects are good for Shanghai to expand exports to West Germany.

The Chinese and German governments attach great importance to the agreements they have signed to promote economic and trade relations between the two countries, including the "agreement on the promotion and mutual protection of investment," the "economic and technical cooperation agreement," etc., which have greatly increased financial and technical cooperation between the two sides. More than 300 cooperative

projects have been developed as a result. The Shanghai Volkswagen Automobile Co, the largest Chinese-German joint venture, produces Santana cars. Its economic success has greatly increased Volkswagen's confidence in cooperating with China. The two sides are planning to expand the present scale of cooperation and turn the Shanghai plant into an export-oriented joint venture, which will have a positive impact on Shanghai's externally oriented economic development.

Recently West German Chancellor Helmut Kohl indicated that his government will do its best to promote cooperation between the two countries, particularly in the field of technology. He also pointed out that more and more big corporations and enterprises in West Germany are getting interested in long-term cooperation with Chinese partners. Therefore, Shanghai should strengthen economic and trade relations with West Germany and set up more Chinese-German joint ventures on the basis of equality and mutual benefit, like the Shanghai Volkswagen Automobile Co, which will speed up the development of Shanghai's export-oriented economy.

#### **IV. Different Ways in Dealing With Hong Kong and Taiwan**

The economic and trade cooperation between Shanghai and Hong Kong should be strengthened. Economic and trade relations between Shanghai and Hong Kong have long been close. Large quantities of commodities are imported directly from Hong Kong to Shanghai or through Shanghai to the interior, and exported from Shanghai to Hong Kong or through Hong Kong to other countries and areas. In the past few years, Hong Kong has become one of Shanghai's largest trading partners. In 1985, for example, Shanghai traded with 168 countries and areas, and the largest proportion of Shanghai's exports, 16.2 percent, went to Hong Kong, as compared with 14.1 percent to the United States and 10.8 percent to Japan. Economic and trade cooperation between Shanghai and Hong Kong are expected to grow even closer, but what kind of cooperation is more conducive to developing Shanghai's export-oriented economy? The writer thinks that the answer lies in the following three measures.

First, continue to increase export of light industrial and textile products to Hong Kong. Light industrial and textile products make up the largest proportion of Shanghai's export industrial products, about 60 percent of the total, and no significant change is expected during the Seventh 5-Year Plan. Light industrial and textile products will continue to be the main part of Shanghai's export product mix, and it is unlikely that the pattern will change anytime soon. In 1985, Shanghai exported \$1.974 billion worth of light industrial and textile products, which made up 58.7 percent of its total exports, and the bulk of the light industrial and textile products exported, about 70 percent, were textiles and clothes. However, Hong Kong's export product mix is also predominantly textiles and clothes, about 40 percent of the

total. Therefore, Shanghai may face some difficulties in further increasing export of textiles and clothes to Hong Kong, and the increase, if any, will be limited in extent. Nevertheless, the textile and clothing industries are still of the labor-intensive type, and Shanghai has unmatched advantages over Hong Kong. If improvements can be made in quality, style, variety, colors, designs, and packaging, Shanghai's textile products and suits will be competitive in the Hong Kong market.

Second, actively promote export of labor services to Hong Kong. In view of Hong Kong's labor shortage, there is great room for Shanghai to expand export of various forms of labor services to Hong Kong. Hong Kong's three major export industries, the textile, electronics, and toy industries, are all faced with labor shortages and have repeatedly requested the British Hong Kong authorities to bring in labor from China. According to statistics, in the first quarter of 1987, Hong Kong had a total shortage of more than 50,000 workers. If Shanghai can maintain timely contacts with the Hong Kong authorities to organize labor exports, it can be a way to earn more foreign exchange. Expanded export of various levels and types of labor services can certainly speed up the development of Shanghai's export-oriented economy.

Third, vigorously expand technological exports to Hong Kong. Shanghai is China's cultural, educational, and scientific research center with more than 50 universities and colleges, more than 230 research institutes, and more than 50,000 people directly engaged in scientific research. In the past few years, they have not only achieved many research results, but mastered and assimilated imported technologies and improved upon them. Therefore, Shanghai is well prepared to export technologies to Hong Kong.

Unlike Shanghai, Hong Kong's industry consists mainly of small- and medium-sized enterprises, which do not have the means to support research and development. As a result, Hong Kong lacks qualified research personnel, but is urgently in need of new technologies, as the economic structure is changing from labor-intensive to technology-intensive. Therefore, Hong Kong business circles urgently need the technologies Shanghai can supply to develop new industries. At the opening of its Shanghai office recently, the Hong Kong Trade Development Bureau also indicated this need in Hong Kong business circles. As the bureau's chief delegate said, "Hong Kong lacks qualified research personnel, but Shanghai has a strong technological force. I hope that Hong Kong and Shanghai can cooperate fully in this area."

Hong Kong business circles have made several concrete proposals on technological cooperation between Hong Kong and Shanghai: 1. Hong Kong firms can hire industrial scientists and technicians from Shanghai to do research and development work in Hong Kong. 2. Shanghai's industrial enterprises with a strong technological staff can set up branches in Hong Kong and form



partnerships with Hong Kong industries to strengthen technological cooperation between the two sides. 3. An industrial science and technology consultant company can be formed jointly by Hong Kong and Shanghai to help Hong Kong in long-term industrial and technological planning.

Although the above mentioned ideas come from Hong Kong business circles, the writer thinks that they are all feasible and should be fully accepted by Shanghai and put into practice as soon as possible. At the same time, Shanghai should continue to expand export of technologies to Hong Kong. It is undeniable that there are some difficulties, mainly doubts among Hong Kong businessmen who wonder if Shanghai's technological achievements can be applied to industrial production and enhance the competitiveness of Hong Kong products. Unless this problem is solved, it will be difficult to expand export of technologies to Hong Kong. The writer thinks that the best thing to do is for Shanghai to hold technological achievements exhibitions in Hong Kong and let Hong Kong firms choose any items on display and put them to use, turning samples into serial production and accelerating the commercialization of scientific achievements. This will remove the unnecessary doubts of Hong Kong businessmen and speed up Shanghai's technology exports.

In developing trade with Taiwan, Shanghai should adopt flexible policies. As we know, about 50 percent of Taiwan's export goods are sold to the United States. In the past few years, U.S.-Taiwan trade has been heavily unbalanced. In 1986, the United States registered a \$13 billion trade deficit with Taiwan. Therefore, the United States has been pressuring Taiwan to lower tariffs, open up markets, and revalue the Taiwan currency to make U.S. products more competitive in Taiwan and reduce U.S. trade deficits. Even though Taiwan's exports to the United States showed no sign of decline in 1987, Taiwan's economy will sooner or later feel the impact of U.S. protectionism and fall into hard times. Therefore, Taiwan businessmen are forced to prepare for the rainy days and look for new markets. Taiwan and the mainland are mutually complementary in their production structures, and the need to trade is felt by both sides. For Taiwan, the need is even greater. The mainland has both the resources and markets Taiwan will require to maintain its economic growth.

Although the Taiwan authorities insist on the "three no's" and refuse to trade with the mainland, trade is dictated by economic necessity and cannot be controlled. If direct trade is not possible, there can be indirect or entrepot trade through a third party. In fact, indirect trade between the mainland and Taiwan has been growing continuously. The trade volume between the two sides was \$560 million in 1984. From January through September 1987, trade between the two sides through Hong Kong rose to \$1,006 billion, a 60-percent increase over the same period in 1986. The mainland imports large quantities of textile products and household electrical appliances from Taiwan, and Taiwan imports

mainly alcoholic drinks, Chinese medicinal materials, and ceramics from the mainland. Recently Taiwan has lifted the ban on travel to the mainland to visit relatives and as tourists, and Taiwan's manufacturers and trading firms are clamoring for the authorities to lift the trade ban between the two sides of the strait. Under the circumstances, Taiwan's economic and trade authorities have no choice but to relax restrictions on entrepot trade with the mainland.

The development of events is increasingly favorable for Shanghai to develop economic and trade relations with Taiwan. However, under the present circumstances, it is unlikely that the indirect trade can develop into direct trade anytime soon. Moreover, the Taiwan authorities have limited imported mainland products through indirect trade to 27 items: namely, squirrel hair, horse hair, chicken feathers, duck feathers, rattan, semifinished rattan products, heavy rattan, flax, combed flax, flax products [ma tiao [7802 2742] and ma qiu [7802 3808]], xuan [5503] hemp, ginned cotton, rabbit fur, sheep's wool (small quantities for writing brushes), pottery and porcelain clay, fire clay, emery, etc. Almost none of these is Shanghai's major export product. Therefore, as long as Taiwan strictly forbids direct trade and investment in mainland factories, there can be no significant growth in economic and trade relations between Shanghai and Taiwan. However, as things develop, direct trade and investment to set up factories in Shanghai by Taiwan's business circles will become possible. If Shanghai can adopt more flexible policies and act according to circumstances, economic and trade relations can develop between Shanghai and Taiwan.

In short, Shanghai, the key city in China's economic relations and trade with foreign countries, has the conditions for developing an export-oriented economy, particularly as it has already built a fairly good foundation in economic and trade contacts with the previously mentioned countries and areas. If we can attract more foreign investment while expanding foreign trade, take advantage of Shanghai's rich manpower and skilled labor to actively develop labor-intensive export processing industries, and properly handle our economic and trade relations with the previously mentioned trading partners with foresight and flexibility, we will be able to make continuous progress in developing Shanghai's export-oriented economy.

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## PRC MEDIA ON FOREIGN ECONOMIES

**Lessons From Japan's General Trading Companies on Direct Investment Overseas**  
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[Article by Liu Changli 0491 2490 7812, Northeast University of Finance and Economics Economics Research Institute: "On Direct Overseas Investment by

### Japan's General Trading Companies"]

[Excerpts] Japan's general trading companies are regarded as the antennae of Japan's economy and pioneers in overseas trade, and they have also played the role of pioneers and organizers in direct investment overseas. Japan's general trading companies have participated in direct overseas investment activities in virtually all fields, particularly commerce. According to statistics from the end of March 1980, direct overseas investment implemented independently by Japan's general trading companies accounts for 15 percent of the total amount of Japan's direct overseas investment in terms of amount of money, and 27 percent of the total in terms of number of investments. If one adds investments implemented jointly with other enterprises, both the number of investments and the amount of money reaches about 40 percent of the total.<sup>1</sup> By studying Japanese general companies' direct investment overseas, we can not only understand Japan's direct investment overseas, but can also draw lessons that can be applied to China's overseas trading companies' move toward internationalized, diversified management and development of direct investment overseas.

## II. Direct Investment Overseas By General Trading Companies

Because Japan's general trading companies are pioneers in Japan's foreign trade, most of their direct investment overseas is closely related to trade. Japan's general trading companies very seldom get involved in investments aimed at obtaining extra dividends. Direct investment overseas by Japan's general trading companies includes primarily the following.

### 1. Commercial Investment Overseas

Overseas commercial investment by Japan's general trading companies is primarily the establishment of a commercial network overseas. There are two specific methods for accomplishing this. The first is to establish, through independent investment by Japan's activities. The second method is for the general trading companies to invest jointly with manufacturers and establish overseas trading companies specializing in marketing products related to specific manufacturers. As of 1 July 1986, Japan's "Big Nine" general trading companies had 486 commercial corporate enterprises overseas, accounting for 30.4 percent of the total number of their direct investment enterprises overseas. Among these were 161 overseas general trading companies of other commercial enterprises.

The reason that Japan's general trading companies attach importance to commercial investment overseas is that their goal is to develop Japan's foreign trade from "port trade" to "inland marketing", and proceed to expand their business scope and volume of trade. Taking Mitsubishi Corporation as an example, the reason it has been able to carry on trade with over 30,000 enterprises

and companies throughout the world is that it has formed a vast marketing network through its overseas branches. Each of Japan's general trading companies, without hesitating to spend enormous sums of money, has established branch general trading companies in the U.S., Western Europe, and elsewhere which are not inferior in capital and scale to the head offices in Japan. Taking as an example the "Big Nine" branch trading companies in New York which are invested in solely by Japan's "Big Nine" general trading firms, the total capital of these branches at the end of March 1972 was 69.7 billion yen; at the end of March 1977, 190 billion yen; and at the end of March 1979, 212.5 billion yen, corresponding respectively to 48.8 percent, 86.1 percent, and 89.6 percent of the total capital of the head offices in Japan at the same times.<sup>2</sup> This has not only strengthened the position of Japan's general trading companies overseas, but has also increased their ability to launch overseas business activities. These are conditions favorable to expansion of international commerce and trade by Japan's general trading companies.

Japan's general trading companies play an important role in Japan's group of enterprise, and have an especially close relationship with large monopolistic concerns within the group of enterprise. With the rapid internationalization of the large monopolistic concerns and the continuous expansion of overseas production, all of Japan's general trading companies must increase their direct investment in overseas commerce, whether in order to coordinate their overseas business activities and strengthen their overseas economic ties, or in order to make up for the decrease in their commercial export rights caused by the expansion of overseas production. In 1984, for example, Nisshin Steel Company, Nippon Kokan, and Kawasaki Steel Corporation purchased U.S. steel enterprises one after another, and in 1987 Nippon Steel established a joint venture enterprise in the U.S. to produce automobile springs. In order to adapt to this situation, each general trading company successively established steel marketing firms and distribution centers in the U.S., and actively reorganized the steel distribution network in the U.S. With respect to automobiles, Japanese general trading companies' participation in overseas marketing activities is also increasing constantly. Mitsubishi Corporation, Marubeni Corporation, C. Itoh and Co., Sumitomo Corporation, and other general trading firms have performed joint investment and established automobile marketing firms in the U.S. and elsewhere. The reason Japan's general trading companies join with manufacturers to jointly implement overseas commercial investment is that the manufacturers are strong in products, technology, and after-sales service, while the general trading companies are strong in information collection, fund-raising, and promoting the sale of goods, and joint investment can not only strengthen the ties between them, but can also bring out the best in both.

## 2. Overseas Manufacturing Investment

In terms of number of cases of investment, manufacturing is the area in which Japan's general trading companies carry on the greatest amount of direct overseas investment. At present, the "Big Nine" general trading companies have invested directly in 670 overseas manufacturing enterprises, accounting for 41.9 percent of the total number of their direct investment enterprises overseas, and of these, the industries most invested in are the iron and steel industry and nonferrous metal industry, with 133 enterprises, and the textile industry, with 114 enterprises. During the 1980's with Japan's industrial structural adjustment and expansion of overseas production, there has been a constant increase in direct investment by Japan's general trading companies in the general machinery industry, electrical machinery industry, and transportation machinery industry, and transportation machinery industry, and direct investment in some high tech fields is also showing positive growth.

The reason that Japan's general trading companies emphasize direct investment in the iron and steel industry, nonferrous metal industry, and textile industry, aside from the fact that they have contracted to carry on most of the trade in the products of those industries, is that those industries are resource-consuming, labor-intensive industries. Among them, the textile industry is the Japanese industry which first began to decline taking the lead in expanding direct overseas investment in the textiles industry, the iron and steel industry, and the nonferrous metal industry. Japan's general trading companies can utilize cheap foreign labor and abundant foreign resources to obtain a large volume of profits in both foreign and domestic trade, and can also meet developing countries' need for industrialization, and facilitate its receipt.

Direct investment by Japan's general trading companies in overseas manufacturing is concentrated primarily on developing countries, and often takes the form of uniting with manufacturers, and conducting joint financing with the investee nation, to establish a "three-man, four-foot" joint venture. Direct investment by Japan's general trading companies in overseas manufacturing is investment in overseas textile industry and iron and steel industry because this is suitable for implementation in developing countries. The reason that investment takes the form of establishing "three-man, four-foot" joint ventures, from the standpoint of Japan's general trading companies, is that while the scope of the trading companies' investment is wide, their capability with regard to funds, technology, enterprise management and the like is very limited and as stated before, when Japan's general trading companies implement direct investment in overseas manufacturing it is not in order to benefit from enterprise operation, but rather to obtain product marketing rights, and benefit from trade. Therefore, even in technologically simple labor-intensive local production, it is necessary to utilize the manufacturer's technology

and business administration experience. From the standpoint of manufacturers, they started direct investment overseas relatively late, they lack experience in overseas business activities, and have very limited capability with regard to collecting information, choosing prospective joint ventures, raising funds, marketing products, avoiding risks and the like, and therefore, in order to make up for these inadequacies, the manufacturers, too, must utilize the general trading companies' strength in the above areas.

## 3. Overseas Mining Investment

Japan is a country with few resources, dependent on foreign imports for virtually all of its resources and sources of energy. Because general trading companies have played an extremely important role in importing resources and sources of energy, and have undertaken virtually all trade, they attach particular importance to direct investment in overseas mining industry to ensure stable imports of resources and sources of energy. At present, the "Big Nine" Japanese general trading companies have implemented direct investment in 68 overseas overseas mining enterprises, accounting for 4.3 percent of the total number of their overseas direct investment enterprises. The general trading companies' direct investment in overseas mining industry is concentrated primarily on the developing countries of the Pacific rim, and consists primarily of investment in foreign-mined iron ore, nonferrous metal ore, coal, petroleum, and natural gas. Aside from establishing local corporate enterprises, Japan's general trading companies, in their overseas mining industry investment, have widely adopted the investment method of "purchasing minerals and oil through financing", i.e. providing the mining industry in developing countries with the funds, technology, and equipment needed for mining, in order to receive preference in importing resources and sources of energy.

Japan's general trading companies not only began overseas mining investment early, but their investment scale is also relatively large. Taking as examples Canada and Australia, which have the greatest number of Japanese local corporations in the field of overseas mining, as of 1 July 1986, Japan's existing direct investment enterprises in the two countries totaled 69 enterprises. Of these, 22 were enterprises invested in by Japanese general trading companies, 5 were jointly financed by Japanese general trading companies and the Japanese mining industry, and another 5 were jointly financed by Japanese general trading companies and the Japanese iron and steel industry. Japanese general trading companies have not only participated in direct investment in 32 mining industry enterprises in the two countries, but also implemented the earliest and biggest investments. The earliest investment was implemented in 1959, while the largest, implemented in October 1984, was a 50-50 joint investment by Mitsui and Co., and the Mitsubishi Corporation in an Australian-owned and operated natural gas mining company. This company had 126 million Australian



dollars in capital, and the amount of this investment alone accounted for about one-third of the total amount of the negotiable securities received by Japan from the Australian mining industry. It is clear that Japan's general trading companies have played a pioneering and leading role in Japan's overseas mining investment.

Additionally, while engaged in overseas mining investment, Japan's general trading companies generally launch further general business activities, primarily consisting of participation in prospecting for resources, assessment of grade and quality, and formulating development plans; participating in infrastructure investment and loan activities pertaining to related highways, railroads, oil and gas pipelines, and harbors; helping import, from Japan and other countries, technology and machinery needed in mine development, and export mine products to Japan and other countries; implementing investment loan activities; launching fund-raising businesses, assuming responsibility for ship deployment marine transportation, and the like.

#### 4. Overseas Investment in Agriculture, Forestry, and Fisheries

Japan is the world's largest importer of agricultural products, and therefore importation of foodstuffs is a business which Japan's general trading companies are good at. In importing foodstuffs, Japan's general trading companies generally implement diversified management, and thus direct overseas investment is an important way of realizing diversified management. Since most of the grain needed by Japan is purchased from large U.S. grain merchants, Japan's general trading companies have implemented at large volume of investments, and have established many large-scale granaries with modern equipment and machinery for loading and unloading in the Midwest region of the U.S. In addition, in order to ensure imports of lumber, marine products and the like to Japan, Japan's general trading companies have invested considerably in forestry, fishing, cultivation of marine products, and the like, especially in developing countries. Enterprises invested in by general trading companies currently account for 38.4 percent of Japan's overseas agriculture, forestry, and fisheries corporations; among these are 39 enterprises invested in by the "Big Nine" trading companies, accounting for 2.4 percent of the total number of overseas direct investment enterprises.

#### 5. Overseas Shipping Investment

Japan is an island nation, and shipping occupies a special position in Japan's import and export trade. Japan's general trading companies are regarded as bearing the primary responsibility for Japan's import and export trade, and they also play an important role in shipping activities. Shipping can even be called the one major pillar of the general trading companies' activities. In order to obtain adequate shipping information, and ensure economical, regular, and punctual shipment of

Japan's import and export goods, Japan's general trading companies attach considerable importance to direct investment in foreign shipping, to guarantee that there is a fleet which can be freely deployed anywhere in the world. The "Big Nine" trading companies currently have 62 direct investment enterprises in the overseas shipping sector, accounting for 3.9 percent of the total number of their direct overseas investment enterprises. Since Liberia implements preferential measures, such as tax reductions and exemptions, for direct foreign investment in its shipping, most of Japan's general trading companies' direct investment in overseas shipping concerns is concentrated on Liberia, and the investment is primarily for ship ownership, leasing, and repair.

#### 6. Overseas Banking and Insurance Investment

General trading companies are known in Japan as "behind-the-scenes bankers" or "shadow banks", and trading company banking has played an important role among manufacturing enterprises with regard to credit, investment loan activities, leasing and the like, providing many banking services to the group of enterprises. With the development of the general trading companies' overseas undertakings, the general trading companies actively launched direct overseas investment in the banking and insurance industries, centered on the developed countries of Europe and the U.S., in order to ensure supply of funds for themselves and related enterprises. Particularly in the 1980's, with the rapid development of banking internationalization and securitization, and the internationalization of the yen, as the banking and insurance industries have become the main sector drawing Japanese direct overseas investments, the general trading companies' direct investment in these industries has increased day by day. Japan's "Big Nine" trading companies currently have a total of 81 direct investment enterprises in the banking and insurance sectors overseas, accounting for 5 percent of the total number of their overseas direct investment enterprises. These local corporate enterprises are primarily finance companies, securities firms, investment firms, insurance companies, leasing companies, and the like.

#### 7. Miscellaneous Overseas Investments

Because the activities of Japan's general trading companies extend over every area, these companies have participated in direct investment activities over a wide range of other sectors. Currently, among Japan's overseas corporations, 5 percent of enterprises in the construction industry, 14.8 percent of enterprises in the service industry, and 19.6 percent of enterprises in other sectors were established through general trading company investments. Japan's "Big Nine" trading companies currently have a total of 194 existing direct investment enterprises in the above-mentioned sectors, accounting for 12.1 percent of the total number of their direct overseas investment enterprises.

Footnotes

1. [Japan] TOYO KEIZAI Shimbunsha Aug 1983. p 49.
2. [Japan] COMPARISON OF MANAGEMENT OF GENERAL TRADING COMPANIES ed. by Kyoikusha 1980 p 253.

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AGRICULTURE

Outlook for More Reform of Agricultural Economy

40060425 Chongqing GAIGE [REFORM] in Chinese No 3, 10 May 88 pp 135-138

[Article by Liu Zhongyi [0491 0022 0001]: "Sustained Development and Pervasive Reform of Agriculture"]

[Text] Reform of the agricultural economic system, which began in 1978, has now entered its tenth year. These 10 years of reform have yielded outstanding results. They have spurred development of agricultural production, enlivened the rural economy, accumulated experience, and set the stage for reform of the entire economic system.

As the socio-economic situation has changed, the agricultural economy is now also facing some new circumstances and new problems.

One problem is the natural population increase and a rise in the level of consumption, which have markedly increased the burden on agriculture. Society requires sustained and steady development of agriculture at a fairly high speed, and it requires that new strides be made in the total output of major agricultural products; consequently, the agricultural sector is urgently in need of more investment and new development.

A second problem is that in the course of reform of the economic system, both township and town enterprises and tertiary industries flourished, cash earnings from them being much higher than from agricultural production. Prices of industrial manufactures rose, thereby increasing agricultural production costs. In a situation in which there could be no corresponding change in the prices of major agricultural products, a marked disparity in "comparative returns" developed between agricultural and non-agricultural production and sales. This returns gap led to agricultural producers and operators shifting their manpower, material, and financial resources, as well as land to the non-agricultural production sector. This occasioned "short term behavior" in agricultural production and it also led to local governments' adoption of policies of local self-sufficiency or restriction of outflow with regard to development of the agricultural economy. Clearly, this state of affairs was extremely unfavorable for both current and long range development of agriculture.

Third, in recent years both the national and local governments took numerous actions to stabilize and promote the development of agriculture, which were effective in an overall sense though not ideal. Prominent problems were as follows: (1) The basic tendency continued to be reliance primarily on the national treasury to support and subsidize agriculture. This became an ever increasing burden on the government, which could not be continued. It was also difficult to satisfy the "urgent needs" of all parts of the country. (2) The economic adjustment policies adopted with regard to agriculture focused primarily on partial and individual specific problems, and most such policies were adjustments made after the fact. Conflicts frequently arose, gains in one area causing losses in another, chain reactions, etc. (3) Actions of a control nature that affected local interests and the interests of the peasants could not be easily implemented.

These circumstances and problems showed that though the agricultural economy had scored successes in the first round of reforms, it was already facing the need to make major new reforms. The task in further reform of the agricultural economic system was to make a complete break with the influence of the free economy and the product economy, and to advance toward a planned commodity economy, forming a new operating mechanism possessed of inherent vitality and dynamism, and having the capacity for self-development. The key to building such a structure lay in operating in accordance with the laws of value, and conscious application of the laws of value to moderate and to solve, little by little, the "comparative returns" gap existing between agricultural production and other social production. This is to say that it should be possible to derive the same general remuneration from the socially required labor input into agriculture as from the input of labor into other industries. The investors and operators in agriculture should be able to obtain generally the same average interest rates available elsewhere in society. This is the only way in which agriculture can become a major industry that is able not only to produce material wealth, but also social accumulations and economic returns, and that is able to attract producers, dealers, and investors alike, thereby arousing their enthusiasm. Only by forming such a new agricultural operating mechanism will it be possible to be consistent with the overall orientation of reform of the entire national economic system, and in harmony with its operation.

This reform will require a transformation of the agricultural economy's operating mechanism and continuing to make use of its leading role in reform of the entire national economy, spurring transformation of the product economy in the direction of a planned commodity economy. It will not be just a partial adjustment or augmentation of economic returns from agriculture.

This reform will be an extension and a deepening of the reforms of the previous period; they will be an inexorable development from the generally established contract

responsibility system linked to output. So long as egalitarianism and "eating out of a large common pot," exist in the supply system, there is no use talking about an "equal mutual exchange of labor," nor is there any use in talking about disparities in "comparative returns." Only when an economic responsibility system has been established can the principle of "equal exchange of labor" play a role, and this is, in itself, a great advance. It was on this basis that we further solved the problem of disparities between "comparative returns"; therefore, it is an extension and an inexorable development of the reforms of the previous stage.

The central problem in the institution of this reform is formation of a agricultural products pricing system that is in keeping with the laws of value. This is a difficult problem that we have long felt to be insurmountable. After judging the hour and sizing up the situation, the time has come for us to force our way through this difficulty. Should the situation develop to the point where there is a serious shortage of agricultural products, the price of agricultural products may rise until it exceeds the per capita compensation that has to be paid for labor in society. As a result, conflicts will become more prominent and uncontrollable. When that time comes, solution to the problem will require payment of an even higher price.

This reform cannot be carried out through simple means such as completely removing restrictions on the prices of agricultural products, or allowing market supply and demand to effect regulation. These are the methods of a "free market economy" not of a planned commodity economy. Doing things this way is guaranteed to produce chaos, and will be unable to spur normal development of agriculture.

Our goals are both to enliven prices of agricultural products, making them generally consistent with the laws of value, and to stabilize prices so that price fluctuations will be kept within the bounds that operation of the social economy and the consumers can bear. This requires starting from several directions and taking multiple actions to lighten the burden on agriculture, improve efficiency, increase output, lower costs, and improve the circulation of commodities. If done on this basis, removal of price restrictions on agricultural products will not pose large "risks."

Therefore, the recommendation that a benign cycle mechanism for the self development of agriculture be established is by no means to say that the national and local governments should keep hands off the development of the agricultural economy, nor is it to say that support for agriculture may be weakened or cut off. On the contrary, both the national and local governments have to play a role in supporting, guiding and regulating agriculture by providing increased economic and technical forces, through more effective policy actions, and through more vigorous organization and management. The goal of the various actions we took in the past was

maintenance of the status quo in the price of agricultural products, which was not in keeping with the laws of value. Today, the various actions we take are for the purpose of making the agricultural products price system be as consistent as possible with the laws of value, and to reduce to the minimum the unchecked negative role of the market mechanism. This is a distinction in the guiding thought behind actions taken during the previous period and actions to be taken in the future.

In carrying out this reform, it is suggested that the following actions be studied and considered:

1. Stable agricultural taxes. The prevailing low tax policy should continue without change, and no agricultural taxes should be levied for a certain period of time on production that is newly added above the current base production figures.

2. Stable and gradually decreasing "contract fixed procurement" quotas. No increase should be made in "contract fixed procurement" quotas for new increases in the production of agricultural products. In addition, "contract fixed procurement" quota norms should be decreased step by step; the "exchange at equal value" character of "contract fixed procurement" should be intensified; and the "compulsory" nature of exchange at unequal value should be diluted.

3. Once taxes have been collected and "contract fixed procurement" quotas have been fulfilled, all agricultural byproducts should be allowed to enter markets for sale at negotiated prices.

4. In addition to carrying out the organization, management, allocation and transfer, and distribution functions, the work of the state-owned business system should focus on a shift to the function of dealing in commodities. State-owned businesses should enter markets as commodity traders, using business activity to play a role in channeling the circulation of commodities and in evening out surpluses and shortages, thereby stabilizing markets and holding prices down.

5. Encouraging, fostering, and organizing activity in the agricultural economy to develop lateral relations in many ways, including contacts between the farming and breeding industries and processing industries, contacts between one region and another, and contacts among producers, suppliers, and marketers, etc.

Lateral contacts are a necessary avenue for breaking down the walled off pattern of doing business to form open, socialized business dealings. Lateral contacts can accelerate the all around development of resources and the multiple use of primary products, thereby increasing value and increasing earnings. This helps make the most of strengths while avoiding weaknesses, use advantages to the full, promote specialized production, and promote business at an appropriate scale. The individual units engaged in lateral contacts can follow the principle of



sharing benefits equally and bearing risks in common. This is helpful for the pooling of funds and skills, helps dovetail production, supply and marketing relationships, and regulates disparities in benefits among the different production links.

6. Increased production of the main means of agricultural production, improved supply, and better management. Not only should the state actively plan the building and the expansion of production of the chemical fertilizer, pesticides, plastics, and farm implements that the peasants need urgently for marked increase in returns from production, but producers, suppliers, and marketers should also reform the management and administration mechanism. The planned amounts to be consigned upward should be stabilized, and state allocations should enable producers to recover their capital with a small profit. Profits for which the upward consignment quotas have been satisfied, and locally produced products may be procured by state commercial units in a coordinated way in accordance with guidance prices. It is recommended that each provincial, regional, and municipal government adopt a monopoly sales system for major materials used in agriculture, buying up through various channels major materials used in agriculture that are offered for sale, drawing up overall average prices, and selling them directly to agricultural producers through the commercial and supply and marketing system, while also allowing for equitable regional price differences, and seasonal price differences in a discretionary and flexible way, and setting prices strictly according to quality.

In short, whenever supply does not meet demand for various materials used in agriculture, not only should there be no resort to command plans or procurement at low prices, which would damage the interests of producers, but neither should state financial subsidies, or sales at low prices to rural villages be used. This would lead inexorably to abuses such as misuse of authority to make profit, or speculation and profiteering, the peasants deriving no benefit at all. Much less should matters be allowed to take their natural course "adapting to the market situation," thereby losing control over prices for the agricultural means of production. Production, circulation of goods, and consumption can be organized only in accordance with the principle of an equitable distribution of returns from production, supply, and marketing.

7. Active Promotion of the Application of the Fruits of Agricultural Science and Technology. The key issue is the need to arouse the enthusiasm of scientific and technical personnel in agricultural research organizations. The main means for doing this are as follows. First is to create conditions so that research institutions and personnel have places, facilities, and "ample scope" for the application of their expertise. Second is the issuance of commendations and rewards to units and individuals who have made inventions or creations, who have accomplished, or who have made contributions in

research, teaching, and the promotion of new techniques. Third is institution of contract responsibility systems, conclusion of agreements, and signing of contracts for research on specific topics, personnel training, and technical promotion.

The promotion and application of agricultural science and technology is an action requiring minimum input for maximum output, which plays a pivotal role in the development of the country's agricultural production and is of decisive importance for the modernization of agriculture. Both the national government and local governments at all levels should devote diligent efforts to organization, and be willing to spend money for this purpose.

8. The tapping of potential and transformation of agricultural production holds very great possibilities. In the immediate future, during the last 3 years of the Seventh 5-Year Plan and the beginning of the Eighth 5-Year Plan, in particular, a rise in the output of agriculture and the laying of a good foundation for the next step in development will depend primarily on the tapping of potential and a transformation, including the promotion of effective new techniques for increasing output, for improving administration and management, for rehabilitating and developing water conservancy facilities, for improving the soil, etc. Increased investment in agriculture should be used, first of all, to improve existing intermediate and low yield areas, enabling them to join the ranks of consistently high production as quickly as possible.

9. In terms of the long range development and strengthening of the reserves of agriculture, it is necessary to begin now to place the opening of new areas on the daily work agendas of both the national government and regional governments at all levels. All provinces and regions of the country, including densely populated areas such as Jiangsu, Zhejiang, Fujian, and Guangdong, as well as regions having the most rigorous natural geographic conditions such as Qinghai, Xinjiang, Inner Mongolia, Yunnan, and Guizhou possess land resources where conditions are relatively favorable for development, as well as resources for the development of animal and plant production. The state should designate a number of key development areas for development in conjunction with the local governments in order to increase output, to improve the level of production, administration, and management, to create experience, and to serve as models. Local governments at all levels should also actively build their own commodity production bases. This is a long range major program of lasting importance, and leaders at all levels should have the foresight to place this task within the scope of responsibilities of their own "term of office responsibility system." If they look only at the present, taking only a "short term attitude," and have no program for long governance and lasting stability they are not good leaders.

10. Reform of inputs into the development of agriculture and the building of an administration and management system. Development of production and increasing reserve strength requires large investment? Where is this investment to come from? In addition to the national government and local governments at all levels doing all possible to increase investment in agriculture, with reform of the agricultural economy operating mechanism, and increased strength for self development, there will be a possibility of attracting peasants' personal cash accumulations, and for attracting the material and technical strength and financial resources of society, as well as attracting foreign capital for the development of agriculture. It will also be possible to use more bank credit capital in agriculture. Given these circumstances, the methods of applying investment to agriculture will have to be correspondingly revised. Uncompensated investment and uncompensated use of funds will have to be changed; the "cutting [of investment funds] into chunks" for distribution as well as the equal distribution of funds will have to be changed; and the system whereby each trade and industry, and each unit goes its own way in decentralized planning will have to be changed. Overall planning, pooling of all funds, and comprehensive arrangements will have to be instituted. Public solicitation of tenders, development of competition, and selective planning will have to be instituted, and contract responsibility systems will have to be instituted whereby the use of funds is compensated, and rights, duties, and benefits are linked. A system will have to be used whereby inputs and outputs are coupled with each other, and funds circulate for use. In short, investment in the building of agricultural production will have to be handled in a businesslike way that makes economic sense and not as payment for "support," "assistance" or even "rescue." Only in this way can the issue of investment for the development of agriculture bring about a new situation and a new mechanism for "having running water come from a fountainhead." When the agricultural economy section not only holds attraction, but also has the ability to increase value through its operations and to increase value further through the circulation of funds will a situation arrive in which the agricultural economy flourishes and takes off quickly.

Naturally, investment in non-operational, non profit undertakings and facilities such as construction that serves society as a whole and that serves to improve the ecological environment over a large area such as flood prevention projects on major rivers, meteorological endeavors, large scale shelter forest belts, natural preserves, research on basic fields of agricultural science, and educational endeavors must be done by the national and local governments. However, these construction projects should also institute contract responsibility systems, practice good management and good use of investment funds, and be inspected for expected achievements and results.

Henceforth, we should be prepared to adopt some transitional measures and advance step by step toward the above goals for 8 years. If by 1995, we are able to run

production, administration, construction, and development by the new mechanism, China's rural economy will be consummately lively and consummately active, and inevitably, as has been the case for the past 10 years, reform of the rural economy will continue to spur along the entire national economy toward development of a new planned commodity economy system.

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#### **Vegetable, Meat, Egg Prices in 13 Cities Given**

40060482c Beijing NONGMIN RIBAO in Chinese  
6 Jul 88 p 2

[Excerpts] According to a survey of 13 large cities, the price of meat and eggs increased from 5.46 yuan per kilogram in the middle of May to 5.74 yuan per kilogram in the middle of June. Meat and egg prices in Guangzhou were 7.50 yuan per kilogram. Vegetable prices decreased from 1.94 yuan per kilogram in May to 0.94 yuan per kilogram in June. Fish prices increased from 6.68 yuan per kilogram in the middle of May to 6.91 yuan in June.

#### **Prices of Farm Products During May, June**

40060482a Beijing NONGMIN RIBAO in Chinese  
20 Jul 88 p 2

[Excerpts] In June the market price for grain (rice, corn and wheat) was 0.75 yuan per kilogram, a 3 percent increase over May, and an 11 percent increase over the same period in 1987. In June the average price per kilogram of rice was 1.05 yuan, a 9.4 percent increase over January, and a 14.6 percent increase over the same period in 1987. In June the average price per kilogram of corn was 0.53 yuan, a 2.6 percent increase over January, and a 3 percent increase over the same period in 1987. In June the average price per kilogram of wheat was 0.66 yuan, a 2.9 percent increase over January, and a 9.9 percent increase over the same period in 1987. In June the market price per kilogram of pork was 5.49 yuan, a 4 percent increase over May, and a 54 percent increase over the same period in 1987. The price per kilogram of pork at state-run stores was 5.07 yuan, a 53 percent increase over the same period in 1987. In June the market price per kilogram of eggs was 4.4 yuan, a 6 percent increase over May, and a 22.9 percent increase over the same period in 1987.

#### **Cotton, Fruit Warehouse Storage**

40060434d Beijing JINGJI RIBAO in Chinese  
22 Jul 88 p 1

[Excerpt] Since 1984, 205 cotton warehouses have been built, covering an area of 1,233,000 square meters and storage capacity is 1.5 million tons; 110 refrigerated warehouses for fruit have been built and storage capacity is 189,000 tons.

**Jiangsu Vegetable Area**

40060482b Nanjing XINHUA RIBAO in Chinese  
29 Jun 88 p 1

[Excerpt] At present, the area sown to vegetables in Jiangsu Province is 143,000 mu.

**Jiangxi Rural Savings**

40060434e Nanchang JIANGXI RIBAO in Chinese  
23 Jul 88 p 1

[Excerpt] As of the end of June, rural saving deposits in Jiangxi Province totaled 3,095,010,000 yuan; per capita savings were 106.7 yuan.

**Shandong Cotton Area**

40060434b Jinan NONGYE ZHISHI in Chinese  
No 12, 20 Jun 88 p 1

[Excerpt] This year, Shandong Province has sown 19 million mu to cotton.

**Shandong Chemical Fertilizer**

40060434c Jinan NONGYE ZHISHI in Chinese  
No 12, 20 Jun 88 p 4

[Excerpt] This year Shandong Province will need more than 10 million tons of chemical fertilizer, but production capacity for the province is only 4,728,600 tons; including state allocations of 1,840,000 tons and the 520,000 tons of fertilizer in stock, total supply will be only 7,068,600 tons.



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STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 pp 823-830

[Detailed Rules for the Implementation of the PRC Fishery Law (Approved by the State Council on 14 October 1987 and promulgated by the Ministry of Agriculture, Animal Husbandry, and Fishery on 20 October 1987)]

[Text]

**Chapter 1. General Provisions**

**Article 1.** The present Detailed Rules have been formulated pursuant to Article 34 of the PRC Fishery Law (hereafter "Fishery Law").

**Article 2.** The following are definitions of terms used in the Fishery Law and in the present Detailed Rules:

1. "Inland waters of the PRC" refers to such inland bodies of water as parts of the sea, streams, rivers, and lakes which lie inward of the ocean base line toward the continent.

2. "All other parts of the sea under the jurisdiction of the PRC" refers to all areas of the sea which are under the jurisdiction of the PRC according to the laws of the PRC, international treaties and agreements concluded or participated in by the PRC, or according to other relevant international laws.

3. "Fishery grounds" refers to fish, shrimp, crab, shellfish spawning and breeding grounds, wintering grounds, migration routes of fish, and breeding grounds for fish, shrimps, crabs, shellfish, algae, and other aquatic fauna and flora in bodies of water under the jurisdiction of the PRC.

## Chapter 2: Supervision and Control of Fishery

**Article 3.** The state exercises supervision and control over fishery in form of a unified leadership with divided responsibilities.

Fishery outside the "borderlines of areas where deep trawling by motorized vessels is forbidden," as delineated by the State Council, is ocean fishery under the jurisdiction of the PRC, supervised and controlled by the administrative department in charge of fishery under the State Council and its subordinate fishery control agencies for the respective regions of the ocean. Fishery inside of the "borderlines of areas where deep trawling by motorized vessels is forbidden" is supervised and controlled by the fishery departments of the people's governments of neighboring coastal provinces, autonomous regions, and directly administered municipalities.

Fishery in inland waters is supervised and controlled by the fishery departments of local people's governments of county and higher rank. Supervision and control of fishery in inland waters which extend over the borders of administrative districts shall be determined in mutual consultations between the local people's governments of county and higher rank which are involved, or by the fishery department of the people's government of higher rank and its subordinate fishery supervisory and control agencies. Fishery in large streams and rivers extending over the borders of provinces, autonomous regions, and directly administered municipalities may be supervised and controlled by the administrative department in charge of fishery under the State Council.

Important common fishery resources of a migratory nature are unifiedly controlled by the state, while sedentary smaller batches of fishery resources are controlled by the fishery departments of the local people's governments.

**Article 4.** For fishery in the ocean inside of the "borderline of areas where deep trawling by motorized vessels is forbidden," the fishery departments of the people's governments of provinces, autonomous regions, and directly administered municipalities shall fix their spheres of supervision and control through mutual consultations. Where such delineation is difficult, duplicative control areas or areas with common control may be delineated; if necessary the problem may have to be decided by the administrative department in charge of fishery under the State Council.

**Article 5.** Fishing in fishing grounds and at places where fish periodically arrive in large quantities should be arranged with due consideration for the overall situation, based on the quantity of the fishery resources available, and on the principle of benefiting protection, reproduction, and rational use of the fishery resources, and giving preference to the neighboring districts, but also giving consideration to the interests of other areas.

As to the arrival of large schools of fish at Zhoushan, the schools of large yellow croaker arriving in the Zhejiang fishing grounds, and in the fishing grounds of East and Central Fujian, the arrival of large schools of large yellow croaker, small yellow croaker and pomfret fish at the Lusi fishing grounds, the important abundance of autumn shrimp at the Bohai fishing grounds, fishing during these periods of abundance of fish and fishing across administrative borders of sea areas shall be under the disposition of the administrative department in charge of fishery under the State Council or units specially authorized by that department.

**Article 6.** The agencies of the administrative department in charge of fishery under the State Council which are charged with fishery administration and fishing port supervision and control represent the state in exercising supervision and control of fishery administration and fishing ports.

The administrative department in charge of fishery under the State Council shall establish agencies for the supervision and control of fishery administration for the three sea areas: the Huanghai-Bohai, Donghai, and Nanhai areas. If necessary, agencies for the supervision and control of fishery administration and fishery ports shall be established at important fishery ports, border area waters, and major streams and rivers that extend over the administrative borders of provinces, autonomous regions, and directly administered municipalities.

**Article 7.** Fishery inspection personnel are authorized to inspect every type of fishing operation and relevant documents, vessels, fishing implements, fish catches, and methods of fishing of every fishing vessel.

Fishery inspection personnel may assume their official duties only after having been examined and found qualified by the administrative department in charge of fishery under the State Council or by the fishery department of a people's government of provincial rank.

**Article 8.** The fishery administrations and their subordinate fishery supervisory and control agencies must cooperate with public security, ocean control, communications, environmental protection, and industry and commerce administrative agencies in the supervision and inspection of the implementation of the Fishery Law.

**Article 9.** Fishery protection organizations of a mass character must launch fishery protection work according to law under the guidance of fishery departments of the local people's government of provincial or higher rank.

### Chapter 3: Aquatic Farming

**Article 10.** To engage in aquatic farming in waters or on land reclaimed from the sea belonging to the whole people, units owned by the whole people or by a collective must apply to the local people's government of county and higher rank for an aquatic farming permit.

If the water or reclaimed land is within the borders of one county the aquatic farming permit shall be issued by that county's people's government. If the area exceeds the borders of one county, the permit shall be issued after consultations among the counties concerned, and, if necessary, by decision of the higher ranking people's government.

**Article 11.** If a unit, without legitimate reason, stops aquatic farming for which it has obtained a permit, or breeds an average of only 60 percent or less of what is bred in similar farms of that area, it shall be considered having given up aquatic farming.

**Article 12.** The natural spawning, breeding, and feeding grounds, as well as the important migration routes of fish, shrimps, crabs, shellfish, and algae in waters and reclaimed land owned by the whole people must be protected and not allocated for aquatic farming.

**Article 13.** Requisitioning of collective-owned bodies of water or reclaimed land for national construction must be dealt with according to the state laws and regulations governing land administration.

### Chapter 4: Fishing Operations

**Article 14.** Division between coastal fishing and high sea fishing grounds:

1. The Bohai and Huanghai areas are coastal fishing areas.
2. The areas within the lines drawn between the following four base points are coastal fishing grounds of the Donghai, those outside these lines are high sea fishing grounds:
  - A. 33 degrees north latitude, 125 degree east longitude,
  - B. 29 " " " 125 " " "
  - C. 28 " " " 124 degrees 30 minutes east latitude,
  - D. 27 " " " 123 " east longitude.
3. The area inside the following isobath lines are coastal fishing ground of the Nanhai, and those outside the lines are high sea fishing grounds. The isobath lines are:

1. 80 meter isobath line east of 112 degrees east longitude;
2. 100 meter isobath line west of 112 degrees east longitude.

**Article 15.** The state is instituting a permit system for fishing operations.

Anyone engaging in high sea fishing and fishing in remote oceans must submit his application to the fishery department of the people's government of the province, autonomous region, or directly administered municipality concerned, which will examine the application and transmit it to the administrative department in charge of fishery under the State Council for approval. Fishing vessels engaged in high sea fishing must be operated according to the area of the ocean and fishing times authorized by permit, and may not at will enter coastal waters for fishing.

Permits for fishing by large-scale trawling or seining in coastal waters shall be issued by the administrative department in charge of fishery under the State Council. Permits for other methods of fishing shall be issued by the fishing departments of the people's governments of provinces, autonomous regions, and directly administered municipalities, according to the norms for the control of ship nets and fishing implements specified by the state.

Permits for inland fishing shall be issued by the fishery departments of the people's governments of county and higher rank.

Fishing permit forms shall be determined by the administrative department in charge of fishery under the State Council.

**Article 16.** In bodies of water under the jurisdiction of the PRC, Chinese-foreign joint or cooperative venture fishing enterprises must be approved by the competent department under the State Council, but must not fish in coastal waters.

**Article 17.** Fishing permits shall be refused in any of the following circumstances:

1. If fishing implements or fishing methods are used that would ruin fish resources, or the use of which has been forbidden;
2. If anyone builds, renovates, transforms, purchases, or imports a fishing vessel without completing approval procedure prescribed by state regulations;
3. If anyone fails to obtain fishing vessel certificate, navigation pass, ship operator's license, ship's registration, and fisherman's permit, required according to state regulations.



**Article 18.** No fishing permit need be applied for for recreational fishing or catching a few aquatic products by hand in reclaimed land not yet ready for aquatic farming and not yet thus administered. However, controls should be tightened to prevent ruining fishery resources. Specific regulations shall be determined by the people's governments of county or higher rank.

**Article 19.** Fishing for scientific research and other special needs in areas or at times where and when fishing is not permitted, or using forbidden fishing implements, forbidden fishing methods, or fishing for specially protected species, must be approved by fishing departments of people's governments of county or higher rank.

#### **Chapter 5: Breeding and Protection of Fish Resources**

**Article 20.** The use of electricity, use of cormorants for fishing, as well as boat-knocking techniques are forbidden. If it is necessary in certain waters to use electricity or cormorants to fish, approval must be obtained from the fishery departments concerned in the people's governments of the provinces, autonomous regions, or directly administered municipalities.

**Article 21.** Fishery departments of people's governments of provincial or higher rank must use the administrative powers vested in them by Article 3 of these Detailed Rules to determine the species of fishery resources that require particular protection and norms for their catch. In the case of important spawning grounds, feeding grounds, wintering grounds, and migration routes, they must prescribe areas and times where and when fishing is not permitted for important fish, shrimps, crabs, shellfish, algae and other aquatic organisms, and must forbid or limit the use of fishing implements and methods, prescribe the smallest permissible mesh of fish nets, and determine other measures for the protection of fish resources.

**Article 22.** Hand-built rock barriers outside the "borderline of the area where deep trawling by motorized vessels is forbidden" to facilitate fishing require approval by the administrative department in charge of fishery under the State Council. Building such rock barriers inside the said borderline must be approved by the fishery departments of the people's governments in the provinces, autonomous regions, and directly administered municipalities concerned.

Hand-built rock barriers must leave open main shipping lanes and anchorages, and, furthermore, require notification to communications and ocean control departments concerned.

**Article 23.** Fishing with fixed pilings must generally not extend beyond the borders of one county. Fishery departments of the people's governments of county and higher rank must restrict the number of piles used for

holding nets, also the places of operation, and, furthermore, specify periods when fishing shall be forbidden. Fishing with fixed pilings in the ocean must not extend beyond the "borderlines of areas where deep trawling is not permitted."

**Article 24.** If anyone, for breeding or for other special reasons, intends to take fry or mother fish with roe, which are forbidden to be fished, of aquatic products of high economic value, such as eel, shad, Chinese hairy crabs, genuine porgy, and grouper, he must obtain approval from the administrative department in charge of fishery under the State Council or the fishery departments of the people's governments of the provinces, autonomous regions, or directly administered municipalities, and, furthermore, an ad hoc special permit, in order to be permitted to fish at the designated place, at the designated time, and within the limits of the approval. The authority to approve fishing of the newly hatched of other species of aquatic products of high economic value may be determined by the fishery departments of people's governments of the provinces, autonomous regions, and directly administered municipalities concerned.

**Article 25.** Fishing of Chinese prawns in the larval stage and female prawns in spring is forbidden. Anyone in need of female Chinese prawns with eggs for breeding purposes must have them bred by the breeding unit itself within a certain time limit; the time limit and control measures will be determined by the administrative department in charge of fishery under the State Council.

**Article 26.** Any unit or individual who directly diverts or uses water at major breeding grounds of young fish, shrimps, crabs, or shellfish, must avoid doing so at times or places when and where the newly hatched organisms abound, or should do so by means of nets, weirs, or other protective contraptions.

**Article 27.** The fishery departments at all levels must monitor pollution of fishery grounds; a monitoring network for the protection of the fishery environment shall be made part of the nationwide environmental protection monitoring network. Whenever pollution is harmful to fishery, the departments in charge of supervising fishery and fishing port affairs shall cooperate with the environmental protection departments to examine the situation and take necessary action.

**Article 28.** At key fishing grounds ship-breaking is not permitted. If ship-breaking is conducted at other places and damage is done to fishery resources, the ship-breaking unit shall compensate for damages according to relevant regulations.

#### **Chapter 6: Penalty Clauses**

**Article 29.** Pursuant to Article 28 of the Fishery Law, fines shall be imposed according to the following provisions:

1. Anyone fishing by means of explosives, fish poison, or in violation of regulations forbidding fishing in certain areas or at certain times, or willfully fishing rare aquatic products protected by state regulations, shall be fined 50 to 5,000 yuan if it occurs in inland waters, and 500 to 50,000 yuan if it occurs in the ocean;

2. Boat-rocking techniques shall be fined 1,000 to 50,000 yuan;

3. Fishing with cormorants without due approval shall be fined 200 to 1,000 yuan if it occurred in inland waters, and 500 to 3,000 yuan if it occurred in the ocean;

4. Fishing by means of electricity without due approval shall be fined 200 to 1,000 yuan if it occurred in inland waters, and 500 to 3,000 yuan if it occurred in the ocean;

5. Fishing with nets with smaller mesh than the minimum allowed by regulations shall be fined 50 yuan to 1,000 yuan.

**Article 30.** A fine imposed pursuant to Article 29 of the Fishery Law shall be enforced to the amount of up to 1,000 yuan.

**Article 31.** A fine imposed pursuant to Article 30 of the Fishery Law, shall be enforced as follows:

1. For fishing in inland waters from non-motorized boats, the fine shall be 50 to 150 yuan;

2. For fishing in inland waters from motorized boats or in the ocean from non-motorized boats, the fine shall be 100 to 500 yuan;

3. For fishing in the ocean from motorized fishing vessels, the fine shall be 200 to 20,000 yuan.

**Article 32.** A fine imposed pursuant to Article 31 of the Fishery Law shall be enforced as follows:

1. For fishing in inland waters from non-motorized boats, the fine shall be 25 to 50 yuan;

2. For fishing in inland waters from motorized boats or in the ocean from non-motorized boats, the fine shall be 50 to 100 yuan;

3. For fishing in the ocean from motorized fishing vessels, the fine shall be 50 to 3,000 yuan;

4. For fishing in coastal waters by high seas fishing vessels, the fine shall be 3,000 to 20,000 yuan.

**Article 33.** In case a fishing license is sold, leased out, or illegally transferred in any other way, or falsified, all illegal gains shall be confiscated, and the fishing license shall be cancelled, in addition a fine of 100 to 1,000 yuan may be imposed.

**Article 34.** In addition to fines imposed pursuant to Articles 28, 30, 31, and 32 of the Fishery Law, the ship's

captain or the responsible head of the unit involved may, if circumstances warrant, be fined 100 to 500 yuan.

**Article 35.** If protective measures are instituted according to the provisions of the Fishery Law and the present Detailed Rules, anyone who causes damage to fishery resources, reclaims lake bottom land and plants it to crops, or without due approval plants crops on reclaimed marsh land, shall be held responsible according to law.

**Article 36.** If fishery enterprises of Chinese-foreign joint or cooperative ventures violate the provisions of Article 16 of the present Detailed Rules, their catch shall be confiscated, and they may be fined from 3,000 to 50,000 yuan.

**Article 37.** If foreign individuals or foreign fishing vessels violate Article 8 of the Fishery Law, willfully enter the territorial waters of the PRC to fish or to investigate fishery resources, the departments in charge of fishery or their subordinate fishery supervisory and control agencies shall order them to leave or expel them, and in addition may fine them or confiscate their catch or fishing implements.

**Article 38.** The departments in charge of fishery or their subordinate fishery supervisory and control agencies shall issue fine decisions in writing. If fines are imposed or fishing implements confiscated, if fish catches or illegally obtained gains are confiscated, a written document in evidence shall be made out, and the fact, moreover, marked on the fishing license.

**Article 39.** In case of one of the following acts, a fine shall be imposed by the public security organs according to the "PRC Regulations Governing Fines in Connection with the Administration of Public Security"; acts that constitute criminal offences shall be prosecuted by the judicial authorities:

1. Refusing or obstructing fishery inspection personnel in the exercise of their legitimate duties;

2. Theft, defrauding, robbing, or destroying fishing implements, fishing boats, and fish catches.

**Article 40.** Fishery inspection personnel who are found derelict in their duties or bend the law for the benefit of relatives or friends shall suffer disciplinary sanction imposed by their local unit or its superior authority. Cases that constitute criminal acts shall be prosecuted according to law.

#### Chapter 7: Supplementary Provisions

**Article 41.** Interpretation of the present Detailed Rules rests with the Ministry of Agriculture, Animal Husbandry, and Fishery.

**Article 42:** The present Detailed Regulations shall come into force on the day of their promulgation.

**State Council Circular on Intensified Efforts at This Year's Autumn and Winter Planting**

40050289c Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 pp 830-831

[State Council Circular on Intensified Efforts at This Year's Autumn and Winter Planting (15 September 1987) (Reference "guofa" (1987) No 87)]

[Text] China's autumn and winter crops suffer the least natural calamities and production is rather stable. In the last few years, summer grain and oil production has made great progress, and yields have reached 20 and 40 percent, respectively, of the total annual grain and oil production. In some localities summer production of grain and oil has been the whole year's best. But, seen from the whole country's viewpoint, developments have been very uneven, and there is still much potential for expanding the area and raising per unit area yield. Of all arable land throughout the country, winter development uses only somewhat over 600 million mu of land. Especially in the south with its abundance of sunshine, hot weather, availability of water, and manpower somewhat over 100 million mu suitable for winter planting remain unused. A considerable portion of the land already developed and taken in use, shows very low per unit area yield and low economic benefit. For more development of winter planting, expanding the area of replanting would therefore be an extremely important measure to make up the shortage of arable land in China, promote stable and well coordinated agricultural development, increase peasant income, and raise economic benefits. In order to accomplish a new breakthrough success in this year's autumn and winter planting, and achieve an abundant harvest of grain and oil in the summer of next year, the people's governments at all levels should effectively concentrate their efforts on accomplishing the following tasks:

1. Conscientious propaganda, implementing relevant policies, arousing the enthusiasm of the peasants for greater agricultural production. For grain, cotton, and oil, contracts for fixed quota procurements shall be maintained, and it was furthermore decided that the fixed quotas for procurements of grain will not be changed next year. In addition to allowing provinces, autonomous regions, and directly administered municipalities to add certain flexible figures, no markups shall be added when the quotas are handed down. The "three link-ups" policy for fixed quota buying of grain on contract shall be continued, with improvement in the cash-conversion method, while the prices for fixed quota purchases on contract of wheat and rapeseed will be appropriately raised. Before autumn and winter sowing, people's governments at all levels must propagandize these policies among the peasants on a broad scale and in depth, and effectively implement them. At the same time, the various localities must employ effective measures, in accordance with the particular local conditions,

regarding supplies of means of production and in the social service area, to arouse the enthusiasm of the peasants for greater effort in winter planting.

2. Planting plans and crop distribution must be in line with local conditions. The policy of "definitely no relaxation in grain production, energetic development of diversified operations" shall be firmly maintained, as efforts shall also be made to achieve success in key points, while also considering the overall situation, guarding against crops crowding each other. The areas being sown in autumn and winter to grain and rapeseed must be maintained stable and even increased. Efforts should be made to expand the area of green manure crop, as also to exceed previous records in next year summer's grain and oil production. In North China's wheat and cotton production areas, the relationship between grain and cotton must be well regulated, and in accordance with the particular local conditions a system of interplanting wheat with cotton and having both ripen at the same time should be widely promoted, with an appropriate increase in the area planted to cotton. In the south, efforts should be made to develop winter agriculture, energetically promoting diversification with some ripening at the same time and some in rotation, developing intercropping and interplanting, and in every possible way expand the areas for winter planting of grain, rapeseed, fodder, and green manure crops.

3. All needed agricultural materials as well as funds to be made available as early as possible. Planning, arranging, and supplying means of production for autumn and winter sowing must be made at an early date. Departments in charge of industry, commerce, transportation, and agriculture must firmly take in hand all preparations for production, arrangement of supply sources, for preferential allocations, and for prompt deliveries. Banks must promptly make advance downpayments in accordance with fixed quota contracts for grain procurements, and at suitable times grant loans in support of production. Departments in charge of water conservancy, agricultural machinery, and petrochemicals must exert efforts to launch water conservancy projects in the winter, take up the repair and assembly of agricultural machinery and implements, as well as irrigation installations, to ensure availability of water and of the gasoline and electricity needed for irrigation during autumn and winter planting. All the various departments involved should mutually cooperate, each bearing responsibility for its particular task, and must overcome bureaucratism. Whenever a problem arises, responsibility should be traced to whichever department is to blame.

4. Broaden availability of fertilizer supplies and increase the use of organic fertilizer. At present, all localities report shortages of fertilizer for autumn and winter planting and demand that everything should be done to increase sources for chemical fertilizer, and that scientific use of fertilizers be promoted. At the same time as the ratio of chemical fertilizer is being increased, the sources of fertilizer supplies should be broadened by



large-scale use of organic fertilizer. China has abundant resources of organic fertilizer, also has traditional experiences in the use of fertilizer. Every locality must adopt effective measures for the use of farmyard manure, promote returning compost to the fields, develop green manure crops, and provide the growing crops with much excellent fertilizer, so as to enrich the soil, and ensure continued stable increases in agricultural production.

5. Energetically promote critically important measures for increased production. Recognizing the increase of per unit area yield as a core task, we must throughout the country select the seeds of high-yield, high-quality, high-resistant species, also effectively and earnestly redistribute high-quality seeds, ensure their supplies, and achieve sowing at the right season and in the right quantities, thus improving the quality of sowing. We must continue to emphasize flood prevention and drought prevention work. In the south, it is particularly important to keep the ditches open and prevent silting. In the north, it is important to attend to autumn and winter irrigation, to store water and preserve the moisture of the soil. We must improve tillage and cultivation techniques and take strong comprehensive measures against harmful insects and weeds. We must intensify the "abundant harvest plan" movement, and through demonstration movies and prescriptions for abundant harvests see to it that various measures for increased production are implemented, giving impetus to a well proportioned increase of production over a large area.

6. Effectively strengthen organizational leadership. The task of this year's autumn and winter planting is a heavy one, and demands are high. People's governments at all levels must concentrate their energy, not miss the appropriate agricultural seasons, and treat the task of effectively accomplishing autumn and winter planting as central task in the work concerning the rural areas. We must deeply penetrate and mobilize the masses, review experiences, and by propagandizing models of increased production and increased harvests, raise the awareness of our many cadres and peasants of the important significance of doing a good job of autumn and winter planting. We must conscientiously organize, coordinate, supervise, and urge on all trades to support agriculture and intensify social service work.

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**Circular on Designation, Promotion of Peasant Technical Personnel**

40050289d Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 p 833

[Circular by the Chinese Science and Technology Consultative Conference, the Ministry of Agriculture, Animal Husbandry, and Fishery, the Ministry of Water Resources and Electric Power, and the Ministry of Forestry Promulgating the "Trial General Rules on the

Professional Designation and Promotion of Peasant Technical Personnel" (29 July 1987) (Reference 87 (kexie fapu) No 316)]

[Text] Since the 3rd Plenum of the 11th CPC Central Committee, there has been a fast development in professional technical education in the rural areas throughout the country. Everywhere peasant technical talents have emerged in large numbers, forming an indispensable major force in promoting economic development and scientific and technological advances in the rural areas. They have played an important role in spreading scientific knowledge, in spreading advanced technological and business management experiences, and in spurring on peasants in efforts to jointly achieve prosperity.

To encourage all the various technical talents in the rural areas to quickly gain maturity and to gradually build up a huge peasant technical contingent, to cope with the urgent need for greater specialization, greater commodity orientation, and greater modernization in the rural areas, the Chinese Science and Technology Consultative Conference, the Ministry of Agriculture, Animal Husbandry, and Fishery, the Ministry of Forestry, and the Ministry of Water Resources and Electric Power have jointly formulated the "Trial General Rules on the Professional Designation and Promotion of Peasant Technical Personnel." These rules are hereby promulgated for experimental implementation. It is hoped that all localities, under the guidance of the respective local governments, and on the basis of the original assessment of professional designations of peasant technical personnel, will strengthen their work of administering rural talents, and will formulate detailed rules according to the actual conditions of their area, will successfully accomplish the work of assessing professional designations and promoting peasant technical personnel, so as to have this contingent play a greater role in the construction of new socialist modernized villages.

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**Professional Designations, Promotions of Peasant Technical Personnel**

40050289e Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 pp 833-836

[Promulgated by Circular of the China Science and Technology Consultative Conference, the Ministry of Agriculture, Animal Husbandry, and Fishery, the Ministry of Water Resources and Electric Power, and the Ministry of Forestry on 29 July 1987]

[Text] Trial General Rules on Professional Designations and Promotions of Peasant Technical Personnel

**Article 1.** The present Trial General Rules have been formulated to accelerate training and appropriately utilize peasant technical personnel, who are not part of the

state's personnel establishment of staff and workers, and to build up a huge peasant technical contingent, in order to cope with the urgent need to change the rural economy toward greater specialization, greater commodity orientation, and modernization.

**Article 2.** Peasant technical personnel whose technical designations are to be assessed and who are to be promoted must firmly uphold the four cardinal principles, fervently love their socialist motherland, observe the state's policies, laws, and decrees, endeavor to carry on and develop traditional agricultural techniques, intensively study modern science and technology, have the courage to undertake reforms and break new ground, and must exert themselves in service to the construction of a new socialist rural material and spiritual civilization.

**Article 3.** All peasant technical personnel, graduates from vocational middle schools, and all skillful craftsmen engaged in agriculture, forestry, animal husbandry, agricultural sideline industries, fishery, township enterprises, mechanical work, water conservancy, water and soil conservation, rural electricity, finance, accounting, and business management in the rural areas may sign up for examination.

**Article 4.** Main basis for assessment for professional designations and promotions of peasant technical personnel shall be achievements in the performance of their work, technological level, and professional ability; reference shall also be made to their level of scientific and general knowledge and records of work in their present specialization.

**Article 5.** The professional technical designations for peasant technical personnel shall be: peasant assistant technician, peasant technician, peasant assistant master technician, peasant master technician, which shall be followed by mention of the person's particular specialization according to the nature of technical work the peasant technician is engaged in.

Criteria for the various ranks shall be:

A. Peasant assistant technician may be designated those who:

1. Through 1 or more years of systematic training or self-study master basic knowledge and basic skills of their particular specialization;
2. Under the guidance of technical personnel, can engage in technical work such as experiments, demonstrations, promotion and productive work in construction, and in the control of projects;
3. Worked in technical jobs for 2 or more years and have shown good achievements.

B. Those with the following qualifications may be designated or promoted to peasant technicians:

1. Those of the technical level, or equivalent level, of graduates from elementary technical schools, or who have already been designated as peasant assistant technicians, and who basically master and can apply the basic knowledge and basic skills of their specializations;
2. Those who can resolve general technical problems in experiments, demonstrations, promotion and productive work in construction, and in the control of projects;
3. Those who have worked 3 or more years in their technical specializations and have shown good achievements in production practice.

C. Those with the following qualifications may be designated or promoted to peasant assistant master technician:

1. Those of the technical level, or equivalent level, of graduates from vocational middle schools who master and can apply basic knowledge and basic skills of their specialization;
2. Those who can resolve general technical problems in experiments, demonstrations, promotion and productive work in construction, and in the control of projects, who are competent in the business management of rural cooperative economic units and can write technical summaries and work reports;
3. Those who have worked 5 or more years in their technical specialization and have done outstanding work in production practice.

D. Those with the following qualifications may be designated or promoted to peasant master technician:

1. Those of the technical level, or equivalent level, or graduates from vocational middle schools or higher institutions, and from long experience are well acquainted with and can apply the theoretical knowledge and basic technology of their specializations, have abundant experience in specialized production or business management, and have certain special strong points;
2. Those who can independently resolve rather complex technical problems in experiments, demonstrations, promotion and productive work in construction, and in the control of projects, and who are capable of compiling technical data, summarizing experiences, and training and giving guidance to peasant technical personnel;
3. Those who have worked 7 or more years in their specialization and have shown excellent achievements in production practice.

E. Granting professional designations to peasant technical personnel of all lines of specialization, apart from being carried out according to the present General Rules, may also be done by assessing professional qualifications with reference to the provisions for the relevant special technologies. Assessment must pay attention to ensure quality and, with due consideration for the particularity of the specialization, should examine primarily: work performance of the technicians, their technical level and professional capacity, while the economic benefits they have achieved should receive particular attention.

**Article 6.** Technical designation for peasant technical talents with outstanding achievements and great contributions to their credit may be determined without considering the restrictions as to level of general education or time spent on technical work. The examination and assessment committee may exempt from written examination persons of low general educational level, but who have special abilities, who have been on technical jobs for long periods of time, have abundant practical experience, have attained outstanding achievements in practical work, and are recommended by the department in charge of scientific and technological work.

**Article 7.** For the work of assessing the professional designations for peasant technical personnel, all localities shall, under the guidance of the county government, organize county committees for the assessment of professional designations for peasant technicians from among the relevant professional departments and leaders in county scientific and technological associations. The various relevant learned societies together with the professional departments should set up separate specialization examination and assessment teams. Among the members of the county assessment committee there must be three or more technical persons with state medium-rank technical designations. Among the members of the separate specialization examination and assessment teams two-thirds or more should be technical personnel with medium-rank or higher technical designations.

The specialization examination and assessment teams are under the direction of the county assessment committee, and are responsible for the work of examining and assessing the technical designation of peasant technical personnel of their system, and should determine the specific criteria and methods for testing and examinations and carry them out.

**Article 8.** Examination and assessment of professional designations for peasant technical personnel shall carry out, in a combination of voluntary signing up with recommendations, examinations and assessments in the relevant different specializations. Each specialization examination and assessment team shall submit its opinion on the basis of the examinee's test results, a review of technical work, and the result of his examination. The opinion is to be submitted to the county assessment

committee, which will examine and approve the opinion, whereupon the county people's government shall accordingly grant the professional designation and issue a certificate.

**Article 9.** Peasant technical personnel who apply for professional designations shall briefly detail their professional career, give a summary and report of their professional technical work, and after official testing, examination, assessment, and approval, shall be granted the technical professional designation, which shall be registered in their personal file or professional test result file.

**Article 10.** Assessment and promotion of peasant technical personnel and granting professional technical designations shall in principle take place once every 2 years, but in the case of outstanding achievements, assessment or exceptional promotions may be carried out at any time.

**Article 11.** The designations for peasant technical personnel are designations indicating special technical level and skill. Employing units shall, according to actual requirements, select for employment peasant technical personnel with professional designations and place them in posts of corresponding special technical duties, clarify their professional responsibilities, and during the period of their employment grant them remuneration and treatment commensurate with their technical professional work performance. In the future, technical professional duties in rural or township enterprises shall gradually be filled with persons with professional designations.

**Article 12.** Peasant technical personnel who have obtained technical professional designations have the following rights: to sign contracts with production units and peasants to undertake technical projects, technical guidance, technical training, and technical promotions against remuneration; to be employed elsewhere to pass on technical skills; priority in technical training, symposia, or technical exchanges arranged by the county or township, or being invited to participate in scientific meetings of relevant scientific associations, societies, and research groups; priority in obtaining technical data from relevant departments and scientific associations, in being allotted high-grade seeds and equipment; priority in temporary or permanent employment by state and collective units; priority in direct enrollment in technical secondary or higher vocational schools. Those having achieved outstanding results in science and technology promotion and in scientific research work shall enjoy the same treatment as specialized science and technology personnel.

**Article 13.** Peasant technical personnel who have obtained technical professional designations have the following obligations: to actively participate in science promotion organizations under the science and technology consultative committees (such as the township science promotion association and technical research groups working in certain specializations, etc.) as well as



in the activities of relevant scientific and technical organizations; to exert themselves in rendering effective technical services; to apply and promote advanced techniques in the local and township enterprises with which they have contracted, and to teach science and technology to those around them; to put forward opinions and suggestions for production development and for increasing economic benefits; to be effective advisors and assistants in production directed by the party committee and the government.

**Article 14.** Peasant technical personnel who have obtained professional technical designations are administered jointly by the relevant business departments of the county and the county science and technology consultative committees, which shall complete technical personnel registration cards and establish a business and technical file of rural technical personnel.

**Article 15.** Assessment of professional technical designations for peasant technical personnel and their promotions must be conducted realistically, strictly, and conscientiously. Those who engage in malpractices for selfish ends or refuse due recognition to peasant technical personnel shall be severely dealt with according to the severity of the circumstances. Those who submit false reports of achievements, practice deceit and fraud to obtain technical designations, shall have their fraudulent technical designations cancelled.

**Article 16.** State allocations of graduates from colleges and universities to village and township enterprises shall be carried out according to the relevant state regulations on the assessment of designations for technical personnel.

**Article 17.** All provinces, autonomous regions, and centrally administered municipalities may formulate regulations, provisions, specific methods of testing, as well as detailed rules of implementation to apply to peasant technical personnel in their districts, in line with the above principles and attuned to the actual conditions of their places. In the areas of minority nationalities and in mountainous border regions, testing and assessment criteria may be appropriately broadened.

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**Substituting Imports With Products of Joint Venture or Cooperative Enterprises**

40050289f Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 pp 845-846

[Measures for Substituting Imports by Electromechanical Products of Chinese-Foreign Joint Venture and Cooperative Enterprises (Approved by the State Council and promulgated by the State Economic Commission on 7 October 1987)]

[Text] **Article 1.** The present Measures have been formulated based on the provisions of the "Measures for

Substituting Imports by Products of Chinese-Foreign Joint Venture and Cooperative Enterprises," approved by the State Council and promulgated by the State Planning Commission.

**Article 2.** Enterprises with the following qualifications may apply to have their products listed in the "List of Electromechanical Products Substituting for Imports" (hereafter the "List"):

1. Chinese-foreign joint venture or cooperative enterprises (hereafter "enterprises") which will be able to provide the domestic requirements by using advanced technologies in the development of new products of which will achieve upgrading and updating of its products, and which will need support due to temporary difficulties in balancing their foreign exchange requirements;

2. If the electromechanical products manufactured by the enterprises are equal in properties and quality to the same type of foreign products, can satisfy the needs of domestic users, and are priced not higher than the foreign products (after-duty prices) of the same type;

3. If the electromechanical products of the enterprises are of the kind which domestic users would have to import;

4. If the enterprises are fulfilling export obligations according to the approved contract.

**Article 3.** Items manufactured in Chinese-foreign joint venture or cooperative business operations for which consideration as products substituting imports is requested must have the feasibility of their substituting imports fully proven and evaluated at the time when the feasibility of the items was studied and reported upon, when they were submitted for approval.

**Article 4.** If the products of an enterprise conform to the provisions of Article 2, and the enterprise, after starting up production, requests that the products be listed in the state's list of substitutes for imports, the enterprise shall submit an application to the department in charge of the products in question, with copies to the State Economic Commission, the Ministry of Foreign Economic Relations and Trade, and the local economic commission. The application must be accompanied by a table applying for consideration as an electromechanical product which substitutes imports, documents to prove the quality of the products, a report forecasting market requirements, a signed opinion by the department in charge of the products in question that must have examined and evaluated the products. The application must be submitted to the State Economic Commission and the State Foreign Exchange Control Bureau for examination and approval. The examination and approval must not take longer than 2 months, and the result shall be published by the State Economic Commission for implementation.

**Article 5.** Users of products listed on the List may order them directly from the enterprise, or arrange bidding by the China Electromechanical Equipment Bidding Center (or other bidding company approved by the State Economic Commission) according to relevant state regulations, directing the user to buy domestically in substitution for imports.

**Article 6.** If the enterprise sells electromechanical products on the state's list of substitutes for imports, the enterprise may be allowed, with the approval of the foreign exchange control departments, to obtain a certain amount of foreign exchange, which should progressively decrease according to the progression of turning the technology into a Chinese domestic technology according to the contract or the feasibility study report.

**Article 7.** Parts, components, and raw materials which the enterprise has to import to manufacture electromechanical products on the state's list of import substitutes may be treated as bonded goods by the customs. When domestic users who had directly imported these types of electromechanical goods had enjoyed reduction or exemption from duty, the enterprise when selling this type of electromechanical products to these users shall also enjoy reduction or exemption from duty with regard to these imported materials and parts.

**Article 8.** Interpretation of the present Measures shall rest with the State Economic Commission.

**Article 9.** The present Measures shall come into force on the day of their promulgation.

On the same day, the State Economic Commission published the first lot of electromechanical products listed on the list of import substituting products: 1) SPECTRUM centralized/distributed control system (including local input/output peripherals, each terminal has a 1024-bit data acquisition device, editor controls, a CRT, and an industrial control device) the producing enterprise is the Shanghai (fukesiboluo) Company Ltd. 2) MICONIC-B elevator (fixed speed 1.6 m/sec, 1000kg capacity), the producing enterprise is the China Xunda Elevator Company, Shanghai factory.

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**Presidential Appointments, Removals**

40050289g Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 25, 5 Nov 87 p 848

[PRC Presidential Appointments and Removals (17 October 1987)]

[Text] In accordance with the decision of the NPC Standing Committee, the following ambassadors were appointed or removed:

Zhang Longhai [1728 7893 3189] was appointed Ambassador Extraordinary and Plenipotentiary of the PRC to the Kingdom of Denmark and concurrently Ambassador Extraordinary and Plenipotentiary to the Republic of Iceland.

Chen Luzhi [7115 7627 4160] was removed from the post of Ambassador Extraordinary and Plenipotentiary of the PRC to the Kingdom of Denmark and from the concurrent post of Ambassador Extraordinary and Plenipotentiary to the Republic of Iceland.

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[Text] Regulations Governing the Protection and Control of Wild Medical Herbs (30 October 1987) [Not translated]

Hotel Security Rules (Approved by the State Council on 23 September 1987) [Not translated]

State Council Circular on Stepping Up Economic Development in Poor Areas (30 October 1987)

Circular of the State Council General Office on the Transmittal of a Request by the State Education Commission and Other Ministries on the Division of Duties Concerning the Management of Education for Young Children (15 October 1987) [Not translated]

Request by the State Education Commission, the State Planning Commission, the Ministry of Public Health, the Ministry of Labor and Personnel, the Ministry of Finance, the Ministry of Construction, the Ministry of Light Industry, the Ministry of Textile Industry, and the Ministry of Commerce on the Division of Duties Concerning the Management of Education for Young Children (13 October 1987) [Not translated]

Circular of the State Council General Office on the Transmittal of a Request by the State Education Commission Concerning Working Student Management Organizations of the Ministry of Education (28 October 1987) [Not translated]

Request by the State Education Commission Concerning Working Student Management Organizations of the Ministry of Education (19 October 1987) [Not translated]

Premier Zhao Ziyang's Congratulatory Message to the Second Session of the General Conference of the United Nations Industrial Development Organization on the Occasion of its Opening (9 November 1987) [Summary: FBIS-CHI-87-216, 9 Nov 87 p 3]

Provisional Rules on the Use of Farmland Tax Revenue (Local) (Promulgated by the Ministry of Finance on 26 October 1987)

Circular of the State Education Commission on the Transmittal of the "Labor Education Plan for Full Day Primary Schools (Provisional Draft)" (23 October 1987) [Not translated]

Labor Education Plan for Full-Day Primary Schools (Provisional Draft) [Not translated]

Major Statistics of the National 1987 1-Percent Population Survey Conducted by the State Statistics Bureau (14 October 1987) (Summary: FBIS-CHI-87-220, 16 Nov 87 p 37) [Not translated]

PRC Presidential Appointments and Removals (12 November 1987)

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**State Council Circular on Developing Poor Areas**  
40050290b Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 26, 20 Nov 87 pp 855-862

[State Council Circular on Stepping Up Economic Development in Poor Areas (30 October 1987) (Reference "guofa" (1987) No 95)]

[Text] Our endeavors to relieve poverty and bring prosperity to poor rural areas throughout the country have undergone a systematic adjustment and reform, and we have initially accomplished the transition from pure relief activities to development-oriented activities, and have thus entered a new phase of development. This great historical undertaking of initiating economic development as the final solution for the livelihood problems of peasants in China's poor areas and of accomplishing a change in the poverty-ridden backwardness there, is not only recognized as a highly important matter at high and low levels throughout China, but also enthusiastically supported by the many cadres and the masses in the poor areas. It is also receiving widest support from all quarters, such as high- and low-level state agencies, mass organizations, the PLA, democratic parties, scientific research and educational units, industrial and commercial enterprises, as also from the developed regions of the country. At present, the first steps in the economic development of poor areas have been taken; progress is very fast, and the results are evident; the overall situation is very good.

A major problem is now that work is not progressing evenly, support of the poor does not yet completely reach down to the poor households, and solution of their livelihood problems is not yet on sufficiently stable grounds. The key to the problem in our work is, therefore, not that we have to again put forward new slogans, but that we rather have to engage in a very thorough investigation, summarize experiences, study the problems, and get a firm grasp on the implementation of measures, in a practical and realistic spirit and with a highly responsible attitude, according to the policies and objectives that have already been clearly established. Along with our unrelenting pursuit of reform, we must improve by every possible means the benefits we derive from the use of our development funds. During the period of the Seventh 5-Year Plan, we must achieve in a really substantial manner the objective of solving the livelihood problems of the majority of people living in areas of poverty. We must accelerate the liberation from poverty of low-income people and have them advance toward prosperity, we must create favorable conditions for a gradual transformation of the economy in the areas of poverty and must change their cultural backwardness. This is the basic starting point for the entire economic development.

#### **I. Clarify the Focal Point in Our Work, Let Support for the Poor Reach Down to the Households**

Solution of the livelihood problems of the masses is the glorious but also arduous task that we are faced with in the areas of poverty. The criterion for checking whether this task has been well done is whether the poor households can now gain effective support in the process of economic development, so that the problems of their livelihood will be solved by the year 1990.

At present, three things deserve our attention: 1) empty shouts of solving the livelihood problem in 3 or 5 years, without specific plans or measures to have the support actually reach down to the poor households; 2) demands that are too high and too impatient, divorced from actual financial and material capabilities; 3) attempts to support everybody whether poor or rich, which is again committing the mistake of egalitarianism. All these factors are detrimental to the concentration of energy on a resolution of the livelihood problems of poor households. For these reasons, the following demands are being put forward:

1. Clearly establish the base figures and clarify the target. Every poor county should detach some cadres for an investigation, township by township, village by village, and household by household, and as quickly as possible distinguish, thoroughly and clearly, who the poor households are whose livelihood is threatened, who the households are that are in need of "five guarantees" [childless and infirm old persons who should be guaranteed food, clothing, medical care, housing, and burial expenses], and which households require relief. Poor households, especially the "three-have-not" households, i.e., those



who have nothing to eat, no clothes to wear, and no shelter against wind and rain, are now the focal point for support in the present economic development. The livelihood question of "five guarantee" households and households on relief due to loss of productive capabilities belongs to the sphere of social security in the rural areas, which must primarily rely for solution on presently effectual rural "five guarantees" measures, as well as on normal relief and the widest possible organization of production.

We must establish records of poor households, the county shall have ledgers, the townships will create booklets, the households shall make out cards, and the problems of shelter and food shall be solved within a set time limit, with periodic inspections and checks.

2. Priority shall be given to easily solvable cases, the difficult ones to follow later; solutions shall be effected in separate groupings. First to be supported shall be poor households that show a will to get ahead and to make an effort. They should first get shelter and food, and should be the first to get out of poverty, set an example, strengthen confidence, and inspire the other poor households, so that the solution of their problems will be effected by certain later years and in other groupings.

3. Subdivide the objectives and fix responsibilities. Each poor county must subdivide the entire objective of solving the livelihood problems of its masses into specific tasks of supporting the poor by certain years and groupings, to be taken on as a personal responsibility of the main leading cadres, level by level, in the counties, townships, and villages. The success or failure in accomplishing the task of supporting the poor must be made an important issue and point of reference in the reports on the work of the cadres in question, in their political evaluations, and as affecting future job promotions and demotions.

## II. Develop the Commodity Economy, Strengthen the Social Service System

Economic development in poor areas must primarily make use of advantages offered by local resources and by the development of commodity economy. Currently, most areas solve their livelihood problems by starting out from a self-supporting cultivation and animal husbandry, but in the long run this will maintain only the self-sufficient production of a small-scale peasant economy, without any links between solving the food and shelter problems with the development of a commodity economy. It will not change the unitary lopsided production structure and cannot possibly provide a solid solution for the livelihood problems, nor could it basically lead from poverty to prosperity.

In order to develop the commodity economy and improve the production structure, it is necessary to rely on resources, adopt a market orientation, transform traditional ways of production, open up new areas of

production, which would then provide employment opportunities for the poor and create more income. At present, the focal points in our policy on production in the poor areas are:

1. We are trying to transform traditional ways of cultivation and animal husbandry by means of advanced technology and materials, and as far as possible raise the rate of grain used up in self-consumption, while supporting the development of diversified operations. The primary means of increasing the rate of self-consumption grain is: a gradual improvement in production conditions, emphasis on capital construction on farmland, and to secure a certain portion of the fields of poor households against drought and floods. State and local authorities should particularly see to it that shipments of chemical fertilizer, plastic mulch, and other materials to the poor areas are increased, that seeds of improved varieties and improved methods of cultivation are widely used, and that average yield should be increased. Whenever there is extreme shortage of grain, appropriate restrictions should be imposed on breeding and on wine-making, which both consume much grain, and the raising of grazing livestock and the use of fruit for wine-making should be encouraged.

2. Energetically develop township enterprises and all kinds of household industries and sideline production, especially gradually transfer to the poor areas such industries of the developed areas that are labor intensive and yield relatively little profit, and vigorously push transfers of surplus manpower to secondary and tertiary industries. State and local authorities shall effectively and in a planned manner build up the infrastructure, such as sources of energy and lines of communications in the poor areas, and support the development of rural industries and the interchange of commodities. The favorable availability of cheap labor in the poor areas should be taken advantage of in continued efforts to provide work as a form of relief. Choose the manufacture of medium- and low-grade goods in projects to provide work as a form of relief. Make a start this year as a trial, and gradually develop it in the coming years.

3. Institute well-guided labor export. Labor export requires little investment and yields early profits. It can end poverty and bring prosperity, and can also develop productive enterprises based on intellectual resources. It should be given highest attention and should be developed energetically.

Speaking of any particular district, it is necessary, whatever industry is being developed, to suit measures to local conditions, take advantage of its favorable conditions, and develop it in a relatively concentrated manner, continuously, place after place, gradually forming a commodity production base of considerable size. Begin with commodity processing, and systematically develop, utilize comprehensively whatever appears suitable, and create your own dominant industry and produce choice products that have competitive strength.

If thousands upon thousands of households are to practice commodity economy, it is necessary to enliven circulation, strengthen services, establish and perfect the socialized service system. We must advocate providing comprehensive services, systematically, in diverse ways. In the past, rural supply and marketing cooperatives and commerce, grain, and foreign trade departments had mainly been concerned with services only after completion of production. Now we shall combine reform of the rural economy with a widening of the area of services, and add services before and in the course of production. Rural service organizations of the departments of agriculture, animal husbandry, forestry, water conservancy, agricultural machinery, fishery, science and technology have in the past been mainly concerned with technical services, but we shall now add services before and after production, and furthermore allow them to gradually run economic entities of a service nature by fully developing trade and professional services. At the same time we shall energetically promote and encourage capable persons in the rural areas, also specialized households and jointly operated households, to start economic organizations of a service nature, employ capable persons among the people to participate, and establish various trade associations. With the further deepening and development of the reform of the economic system, it is necessary to progressively transfer certain functions of the government in connection with organizing production to the service organizations and trade associations, and have them grow into an important force which unites the thousands upon thousands of households in the development of a commodity economy.

### **III. Suit Measures to Local Conditions, Start Rural Economic Entities To Help the Poor**

Having help for the poor reach down to the households does not merely mean distributing relief money to the poor households. Poor households who are slightly developed and lack business capabilities should mainly rely on other capable persons to start economic entities to help the poor, so that work, services, and profits will reach down to the poor, and measures to solve livelihood problems will indeed reach the poor.

Starting economic entities to help the poor is a creation of the masses. Whatever economic entities to help the poor have so far been initiated are mainly initial start-up enterprises. They have not only directly placed the manpower of a number of poor households in industry, but have also inspired poor households in nearby districts to develop commodity production. This method of "supporting one point, providing for a group of people, and spurring on a large circle of people" has broken away from the traditional method of trying to solve the problem of poverty household by household. It increased the benefits derived from invested funds and enhanced chances of repayment. It changed the old method of relying completely on rural cadres and the administrative method of handing out money and materials, and broke a new path of helping the poor by reliance on

economic organization. From now on, localities that have not yet done so should try out industrial entities, and those that are already doing so, should summarize their experiences and continue progressive development.

1. Economic entities to help the poor must see their mission in helping the poor and focus, to begin with, on initial start-up industries, with the double function of providing work for some poor households and spurring on other poor households to develop production.

2. Economic entities to help the poor could be started by state enterprises and industrial units, as well as by collectives, capable persons in the villages, and by urban persons in science and technology who would go down to the villages. Anyone who is in a favorable situation should start them, and whoever is successful should be supported.

3. Whenever anyone starts an economic entity to help the poor, whatever item is developed, whatever amount is invested, how many persons are placed, and how many are inspired to emulate the feat, the entity should always be governed by clear provisions, and all must be subjected to strict evaluation and investigation.

4. Economic entities to help the poor can be financially supported in a variety of forms; there can be direct support, or the poor household may invest some asset as his share, or in any other form.

5. Each locality shall, in accordance with local conditions and with reference to the way civil affairs departments are operating welfare factories, formulate favorable policies and administrative methods to support the economic entities to help the poor.

### **IV. Public Bids Shall be Invited for the Undertaking of Poverty Assistance Projects, a System of Contracting for Development Shall be Adopted**

To enhance the benefits derived from poverty assistance funds, a competitive mechanism shall be introduced into the economic development of poor areas. In the future, whenever poverty welfare projects are suitable for contracting out, such developments shall adopt a system of open bidding. The invitations to bid may be limited to the locality or extended outside the locality in question. Smaller projects may be contracted for by local people with technical specializations and business experience who are willing to take the risk. For projects requiring larger funds and demanding higher technical and managerial skills, projects which cannot possibly be undertaken by local means, or in the case of unprofitable existing enterprises, it would be developed areas, large and medium-size cities, industrial and commercial enterprises, scientific research units, universities and secondary technical schools, and engineers and technical personnel throughout society that would be welcome to come to the poor areas to contract for these development projects. These would be ways that would allow us to

break out from the small circle of having only poor areas trying solve other poor areas' problems. We would summarily introduce into the poor areas the advanced technologies of outside areas, enterprise management experiences, and sales channels for products, deepen already existing appropriate assistance, establish lateral links, and link the development of poor areas with the further development of the developed areas.

Provinces, prefectures, or counties shall arrange the details of public bidding, according to the different circumstances of the cases. Flexible and diverse forms may be adopted for contracts for projects; operations may be independently undertaken by contracting unit or individuals, or as joint enterprises, or in any other form. If the contract was concluded with someone outside the locality in question, the poor area would, generally, supply funds, resources, factory grounds, and manpower, while the contracting party would supply technology and equipment. There may also be direct business management, or the outside contracting party may supply funds, and the operation could be a joint enterprise or one solely financed by one party. The right of disposal of the products and other specific items must be decided upon in mutual negotiations. Whether contracted locally or outside of the locality in question, there must be a clear understanding on such questions as what products shall be developed, what amounts shall be invested, what will the economic benefits be, and how many poor households will be helped. A written contract should be signed and notarized, and all localities should formulate appropriately attractive and favorable policies.

Moreover, the various provinces (prefectures) could also appropriate certain amounts of poverty assistance funds and give them directly to advanced enterprises in the developed areas and large and medium-size cities inside or outside the provinces (prefectures), to conduct tests in economic development in specific poor counties, so as to gather experiences and explore new forms of investment.

#### **V. Capital Shall Be Distributed Where it Brings the Best Results**

Benefits derived from use of poverty assistance funds is an important indicator to measure success or failure of any economic development. The funds that are now expended are quite large, but due to lack of unified overall disposition and insufficient coordination, economic benefits leave much to be desired.

1. Provinces, prefectures, and counties must clarify what amounts of poverty assistance funds come from what source. They must then proceed according to the principle of "unified planning, overall disposition, no confusing of channels, no changes in use, and apply funds to key points in a relatively concentrated form," combine the various types of poverty assistance funds coming

from central and local authorities for use in poor areas, so as to have the poverty assistance funds from various quarters form one organic entity and as such become effective.

2. Benefits derived from the use of poverty assistance funds must be evaluated according to clear criteria: 1) whether the poor households can in good time resolve their livelihood problems; and 2) whether credit funds and other funds to be repaid can indeed be repaid on time. The various localities may make specific provisions, depending on the particular local conditions.

3. Funds must be strictly distributed according to economic benefits derived from their use. Next year, the state will for the time being still distribute poverty assistance funds among the provinces according to the number of poor people. However, in distributions to the counties, the provinces will break with the "eating from the big pot" method of distributing money according to the number of poor people. Provinces that have selected appropriate projects, have administered the funds well, and have shown high economic benefits, will be given more poverty assistance funds. Those who do not do well in these respects will be given less funds. Counties that spent money indiscriminately without regard for benefits, shall have to investigate who is responsible for such action and shall tighten up leadership control, as their poverty assistance funds may otherwise be cut off. At the end of this year, every province and autonomous region shall organize teams of leading cadres and specialists for an examination and evaluation of the use of these funds, conduct a one-time investigation, and according to the results of the investigation prepare next year's plan for the distribution of poverty assistance funds. The State Council's leading group for the economic development of poor areas will organize a group of specialist examiners who will make spot checks. In the future, periodical inspections will be made an institution.

4. In the case of the various poverty assistance funds, separate lists shall be made out for funds and plans. The funds shall be disbursed at proper times, and their turnover accelerated. Investing departments, such as banks, financial agencies, etc., shall cooperate fully, simplify procedures, and strive to get every year's poverty development funds to the counties before spring planting. The economic development departments in the various counties and the units administering the various projects shall cooperate with the investing departments in recovering credit funds and other funds that have to be repaid.

#### **VI. Effort Must be Expended on Preparation and Administration of Projects**

Preparation and administration of projects is presently a weak link in economic development. The main problem is the lack of an overall plan, insufficient preparation of projects, insufficient deliberations, and even ignorance of how to handle the project, so that no acceptable



projects can be presented, or projects are willfully altered, or are badly administered, which severely affects the issue of funds at the proper time and the resulting economic benefits. The following action is, therefore, demanded:

1. Every poor county shall act in the spirit of the meeting on planning science and technology, economic, and social development in the poor areas by the year 2000, held under the joint auspices of the State Planning Commission and the State Council's leading group for economic development in poor areas. The poor counties shall, accordingly, concentrate their strength on making a good job of working out a long-range plan and plans for an intermediate period and for the near future. Every development plan that has passed repeated debate, that is scientific and feasible, must not be willfully changed only because of a change in the leadership group or replacement of one particular leading cadre.

2. All poor counties must subdivide their development plans into specific development projects, must all set up project depositories, and must pay attention to filter out, add, reduce, or adjust projects according to changes in the situation, but always effectively store up projects, since projects should await funding, and not funds be kept waiting for projects.

3. Leading economic development departments at all levels should arrange in good time for banks, financial, and other funding departments to come together with other business departments for joint deliberations and evaluation of projects. This should bring a change to the present situation where deliberations are perfunctory, evaluations are tardy, or there is nothing but mutual bickering. Every business department must responsibly administer approved projects and render all necessary service, to ensure that the project is smoothly carried out, and that anticipated results are achieved.

#### **VII. Move Intellectual Development Into an Important Position**

Economic development of poor areas is, in the final analysis, development of intelligence. In the long run, development of basic education is the most important way to enhance the quality of workers in the poor areas. However, under present conditions, the most important method to enhance quality would be to change certain concepts, relax policies, activate all available talents that are capable of action, to lead the masses on a move from poverty to prosperity, and at the same time focus on intelligent youths in the countryside and launch large-scale technical training of peasants.

1. Start using local talents in the rural areas on a large scale. The employment of local talents will solve two problems: First, outmoded prejudices will be changed, as we shall find capable persons from the countryside acceptable as important components of our resource of talents. Second, it will allow us to eliminate every kind of

"leftist" influence, and will create a favorable environment, and also favorable conditions, for local talents to show their skills. Relevant departments of industry and commerce, of banking, and tax affairs shall lend active support to capable persons in the rural areas in efforts to lead the masses out of poverty to prosperity, and the said departments should truly effect a relaxation of their policies.

2. Provide a stable basis for the employment of local talent and bring in talents from outside. We must determine policy and adopt measures to speedily stop the brain drain from poor areas. As we fully take advantage of available local talent, we should also attract on a broad scale persons with special skills and knowledge from state agencies, universities and secondary vocational schools, scientific research institutes, and from among the general public to come to the poor areas and contract for certain projects, give guidance to township enterprises, and start up economic entities to help the poor. All intellectuals, whether local or from other areas, shall be remunerated and enjoy preferential treatment according to their contribution to economic development.

3. Focus primarily on young intellectuals in the countryside, earnestly undertake effective vocational and technical education as well as adult education in the rural areas, and start vocational and technical training of peasants in a planned manner. Adopt a variety of forms to have one working person in every poor household as soon as possible acquire one or two useful skills, according to the needs of whatever project is being executed. It is on the young graduates from junior and senior middle schools in the townships, who have had a general education and who fervently desire to change the condition of backwardness and poverty, that our hopes for the development of the poor areas rest. We must look to them as the primary target for the present development of intelligence, must have them quickly grow up into leaders in the economic development. The local elementary and middle schools must also contribute within the scope of their facilities and abilities to efforts to lead the peasantry from poverty to prosperity.

The financial departments at all levels must supervise the actual allocation of technical training expenses amounting to 5 percent of the discounted interest of project loans, to be dispensed from the funds for the development of undeveloped areas.

4. Train cadres in rotation, enhance the leadership quality of cadres of all ranks in the economic development. From this year to the first half of next year, the State Council's leading team for economic development of poor areas shall train in rotation all of the 2,000 cadres from the more than 300 key poor counties. The training of cadres from other poor counties and for all poor county cadres at the basic level shall be arranged by their provinces, prefectures, and counties.

### **VIII. Science and Technology, the Mainstay of Economic Development**

Rely on scientific and technological progress to open up the way to freedom from poverty and to the advent of prosperity. Development of a commodity economy supported by the pillars of science and technology shall be afforded eminent position in the state of things.

1. Integrate the implementation of the "spark plan" and the "bumper harvest plan," organize strength for an effective spread and application of the available achievements of science and technology. First, integrate and refine advanced experiences made locally, such as the achievement of high yields in grain production, animal husbandry, and from fruit trees, actively demonstrate these experiences and vigorously spread their application. Second, utilize the technology market to actively import from other areas the most urgently needed scientific and technological achievements, to increase production and improve economic benefits.

2. Adopt diverse forms to fully utilize the intellectual resources of scientific research units, universities and secondary vocational institutions, mass organizations, and of the democratic parties in our effort to render assistance to the poor. They should help in devising and perfecting plans for economic development, be available for consultations, give guidance, participate in economic and technological decision-making, and should establish technological experiment and demonstration bases. Where conditions are favorable, technical experts could be employed as advisors in the economic development of poor counties.

3. Although rendering scientific and technological assistance to poor areas should be remunerated, it should also be rendered in a spirit of assisting the poor and helping those in difficulties. Scientific and technological personnel who make contributions toward the development of poor areas should be commended and rewarded. To have more scientific and technological personnel devote their efforts to this undertaking, every province (prefecture) and all ministries of the State Council should devise needful policies of encouragement.

### **IX. Poor Counties Shall Make it Their Core Task To Lead the Masses in Efforts To Solve Their Livelihood Problems, To Lead Out From Poverty and Attain Prosperity**

The top-ranking leadership in the counties is the key to success in the economic development of poor areas. It is therefore necessary that every poor county make it a core task in all work to lead the masses in efforts to solve their livelihood problems, to get out from poverty and attain prosperity, and truly place this task on the order of the day. This must be the primary criterion in evaluating whether the core work of a poor county has been shifted

to economic construction. Every principal leading comrade in a county must, therefore, personally take this work in hand and spare no effort; he may not merely delegate this work to some business department or some people to do.

To strengthen leadership in economic development, every province (prefecture) shall provide the poor counties with a strong leading group and, furthermore, ensure relative stability. Provinces, prefectures, and counties should select capable cadres to perfect and replenish the setup for economic development. Cadres with boldness in breaking new ground and of an enterprising frame of mind, showing outstanding political achievements in assistance to the poor must be supported, protected, commended, and rewarded.

Poor county cadres of all ranks as well as cadres dispatched to the poor counties from various agencies and departments must involve themselves closely with the work and help the masses foster a spirit of self-reliance, of arduous pioneering work, and a resolve to overcome poverty to attain prosperity. They should help strengthen the setup of leading groups at the basic level in the rural areas. We must advocate that those who first attain prosperity should help those who lag behind, and that prosperous households lead poor households. In line with local conditions, we must help poor households find ways and methods to escape poverty, and we must carry on this work to full realization.

Poor counties should adopt the dual tactics of economic development and family planning, and in certain localities as quickly as possible bring about a change in the abnormal situation of having population increases exceed increases in grain production and economic development.

### **X. All Departments of State Organs Must Make Greater Contributions Toward Economic Development of Poor Areas**

Economic development of poor areas is a comprehensive regulatory construction project. The various departments of the central and local authorities must include economic development of poor areas into their plans and into their respective work schedules, and shall give it even increased support. On some conspicuous problems that hinder the development of poor areas, such as drinking water for people and animals, migration of people, electric power for agricultural purposes, highways, endemic diseases, development of intellectual resources, etc., the departments concerned should quickly start specialized studies, adopt effective measures, and make earnest efforts to solve these problems in cooperation with the local authorities.

In the future, when formulating unified policies that are to guide overall development, the various departments must give full consideration to the special conditions in impoverished districts, and must under no circumstances exercise arbitrary uniformity regarding rich and poor districts.

It is already a great success that concentrated action by various departments of the state are assisting an area of poor districts to escape poverty and attain prosperity. Some departments have sent out investigation teams and work groups, and, by dividing up the task but combining all results, have assisted the poor districts, accomplished much, and gained much valuable experience. The departments and bureaus of the various provinces and autonomous regions have also achieved great success in assistance geared to the actual needs, and in undertaking help to poor areas. We must certainly affirm this fact, continue to carry this work forward, and support it in the future. Leading organs of all ranks should carry out one review and inspection every year, and should commend and award all departments, units, or individuals who have made contributions toward the work of helping the poor.

9808

**Rules on Use of Farmland Tax Revenue (Local)**  
40050290c Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 26, 20 Nov 87 pp 867-869

[Provisional Rules on the Use of Farmland Tax Revenue (local), promulgated by the Ministry of Finance on 16 October 1987)]

[Text] In order to protect land, economize in the use of arable land, and as approved by the State Council, a use of farmland tax shall be levied as from 1 April of this year. It has furthermore been decided at the same time that half of the revenue from the use of farmland tax shall be left with the local authorities to create a special funds for agricultural development (hereafter "agricultural development fund"). This constitutes a fairly large investment in the logistics of agricultural development. To ensure its best management and use, and to derive the deserved benefits from it, we are prescribing the following rules for the management and use of this fund:

1. The purpose of the state in allocating funds from the use of farmland tax to local authorities for the establishment of an agricultural development fund is that an equal area of arable land should replace reduction in arable land due to its use, with due approval, for non-agricultural uses, also to improve the quality of presently available arable land, and in financial respects ensure a continued stable increase in agricultural production, especially in the production of grain. The principle that must therefore be maintained in the management and use of the above-mentioned agricultural development fund is that it be "derived from farmland and used for farmland," used mainly for opening up for cultivation unused land suitable for farming and for the restoration and improvement of presently available farmland.

2. Provinces, autonomous regions, and centrally administered municipalities shall divide up the revenue derived from the use of farmland tax and allocate a large portion to the counties (cities) to establish agricultural development funds, enabling them to carry out restorations or improvements that will make up for reduced areas of farmland. Counties (cities) with abundant farmland resources or great potential for improving presently available farmland shall carry out development and restorations in a planned manner, with particular emphasis on certain key points. All provinces, autonomous regions, and centrally administered municipalities are requested to determine the rates at which funds are to be retained by counties (cities) and to which extent such funds are to be centrally held by the provinces.

3. Essential Uses of Agricultural Development Funds:

a. To be used as a reserve resource to support economic units of the state and of the collectives as well as family farms of staff and workers and farm households in opening up wasteland or reclaiming land from sea or lakes suitable for farming, in reclaiming or returning to cultivation abandoned wasteland and unused land that can be effectively cultivated, and in the expansion of presently cultivated area;

b. To be used in the restoration and improvement of presently available arable land, with particular emphasis on renovating fields of low and medium yield, raising the per area yield, and with priority to be given to the development of grain production;

c. In localities with ample reserve resources of arable land, to be primarily used for an expansion of the area of cultivation; in localities with poor reserve resources of arable land, the emphasis should be on the restoration of available arable land and improving fields of low or medium yield.

4. Expenditures of the agricultural development fund shall be limited to the following needed expenses for expansion or restoration of cultivated land and for improvement of presently cultivated land:

a. Expenditures for the purchase of agricultural mechanical equipment, tools, and materials;

b. Expenditures for the purchase of mechanical equipment, tools, and materials to install or improve water conservancy and irrigation of fields;

c. Expenditures for biological measures needed in the opening up of new farmland or restoring and improving presently cultivated land;

d. Expenditures for the cultivation or reproduction of improved varieties and demonstration and propagation of advanced scientific and technological measures with useful applications in agriculture;



e. Expenditures needed for the preliminary prospecting (including soil analysis, assessment of soil fertility), deliberation, planning, and designing of projects.

Expenditures for core projects centrally undertaken by the state and for all measures adopted in these undertakings are central expenditures of the state. Economic units of the state or the collectives, family farms of staff and workers, and farming households who contract for engineering work in state core projects must arrange by themselves certain amounts of their own capital (including labor accumulation) in support of the projects in question; the state may grant appropriate support, depending on need and on the actual economic conditions of the party contracting for the work.

5. Use of the agricultural development funds must be strictly governed by the principle of first collecting (levying the use of farmland tax) and only then using any of the funds, and since they are special funds (agricultural development funds) they are to be used for their special purpose. No local authority or department must encroach on the funds or divert them for other uses. It is not permitted to substitute these funds for investments in agricultural capital constructions, or for assistance to agricultural production originally instituted by the local authorities and to be increased in the regular way, and also not for operating expenses of the agriculture-forestry, water conservancy, and meteorological departments. It is not permitted to use the funds to pay the expenses of organizations and personnel, also not for the construction of multistory houses, restaurants, hotels, or guest houses, and also not for other non-agriculture related undertakings.

6. The finance departments of all provinces, autonomous regions, and centrally administered municipalities must tighten management of the agricultural development funds. They must prepare independently annual income and expenditure budgets, and at the end of the year they must promptly compile a final statement (see attachment 1, omitted). Budgets as well as final statements must be included in the general budgets and final statements of the financial departments of local authorities of all ranks.

7. The agricultural development fund shall be specifically administered by the units in charge of collecting the use of farmland tax in the finance departments at the various levels. The finance departments shall base allocation and use of agricultural development funds on projects for opening up wasteland, restoration of land, and improvement of farmland proposed by the relevant departments, and after an overall evening out of proposed projects, shall draw up a plan for the rational allotment of funds, which shall be presented to the people's government at the same level for its examination and approval. The various business departments in charge shall make arrangements for implementation according to the projects and the plans that have been approved. The finance departments shall dispense funds

according to plan and projects and shall also supervise their use. If funds remain unexpended at the end of a year, the local finance authority may close the account for use of the funds in the succeeding year.

8. The best projects shall be chosen to receive investments of agricultural development funds, or public bids may be invited for best investments, and a combination of repayable and gratis use of funds is to be employed. All projects with direct economic benefits shall in principle repay the funds used. Repaid funds are to increase the agricultural development fund and shall then again be used to open up new farmland, and to restore and improve existing arable land. Repayable funds shall be administered according to the system of agricultural turnover funds.

9. The use of agricultural development funds must be subject to strict management, project by project, and according to economic methods. Users of these funds shall sign economic contracts with the departments in charge, as the departments in charge shall also sign contracts with the financial departments, such contracts to stipulate the time limit for completion of the projects and the economic benefits to be achieved in the projects. Contracts shall clearly designate the persons responsible for the projects, the economic obligations of both parties, it shall contain clauses on rewards and penalties, and shall be notarized by judicial authorities, to ensure achievement of the benefits from the use of the funds.

10. The financial departments, together with the departments in charge, shall at proper times check on the progress of projects and on the ways the funds are being used, and shall promptly rectify any problems that should be discovered. On their completion, projects shall be strictly examined before being found acceptable. At the end of the year, reports shall be submitted to the people's government of the same level and to the higher ranking finance authority (see attachment 2, omitted).

11. Finance departments of all provinces, autonomous regions, and centrally administered municipalities may determine specific measures for the management of the agricultural development funds, based on the present Rules, and linked to the local conditions, to be approved by the people's government at the same level and to be reported to the Ministry of Finance for its record.

12. Interpretation of the present Rules rests with the Ministry of Finance.

**Presidential Appointments, Removals**  
40050290d Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 26, 20 Nov 87 p 880

[PRC Presidential Appointments and Removals (12 November 1987)]

[Text] In accordance with the decision of the NPC Standing Committee, the following ambassadors were appointed and removed:

Wang Ganghua [3769 6921 5478] was appointed Ambassador Extraordinary and Plenipotentiary of the PRC to the Republic of Ecuador.

Pan Wenjie [3382 2429 2638] was removed from the post of Ambassador Extraordinary and Plenipotentiary of the PRC to the Republic of Ecuador.

9808

**No 28, 15 Dec 87**

**Provisional Rules on Economic Contracts of Commercial Departments**  
40050303d Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 28, 15 Dec 87 pp 937-943

[Provisional Rules on Economic Contracts of Commercial Departments (Promulgated by the Ministry of Commerce on 1 September 1987)]

[Text]

#### **Chapter 1. General Provisions**

**Article 1.** To strengthen the administration of commercial contracts of commercial (including grain, and supply and marketing; thus also hereafter) departments, to ensure the legally correct conclusion, fulfillment, modification, and termination of contracts, as well as the prompt resolution of conflicts from the contracts, to protect the state's interests and the legitimate rights of the parties to the contract, and to promote the development of commodity production and commodity circulation, the present Rules have been formulated, pursuant to the relevant provisions of the "Economic Contracts Law of the PRC."

**Article 2.** The present Rules apply to commercial departments at all levels and to all enterprises and industrial units.

The present Rules shall also apply in the management of purchase contracts of the state when buying commodities under directive-type planning and under fixed purchase quotas.

#### **Chapter 2. Organization, Personnel, Responsibilities in the Administration of Contracts**

**Article 3.** In case commercial departments at all levels, and enterprises and industrial units have legal departments, the administration of contracts is the responsibility of the legal department. Those that do not have legal departments shall designate an appropriate organization to be in charge of the administration of contracts (hereafter called "contract administering organization").

Small-scale enterprises and industrial units or departments in enterprises and industrial units whose functions comprise the signing of many contracts, shall all designate particular staff to be in charge of contract administration (hereafter "contract administrators").

In carrying out their duties, contract administrators shall carefully note the opinions of legal advisors.

Apart from legal representatives, personnel in enterprises and industrial units who directly sign contracts become the contract's "contract executors."

**Article 4.** Main responsibilities of contract administering organizations are:

1. To draw up a specific system and methods for contract administration;
2. To supervise and examine conclusion and fulfillment of contracts by the respective departments and to report periodically to the executive in charge of the unit in question;
3. To disseminate relevant laws, regulations, and information, review and spread experiences in contract administration;
4. To examine contracts and prevent conclusion of imperfect or unlawful contracts;
5. To prevent units or individuals from using contracts as a means to engage in unlawful activities;
6. To mediate conflicts according to Article 23 of these Rules and other relevant provisions.

**Article 5.** The main duties of the contract administrators are:

1. To assist the contract executors in the conclusion of contracts, to participate in negotiations and signing of important contracts;
2. To examine contracts and prevent conclusion of imperfect or unlawful contracts;
3. To examine fulfillment of contracts, assist contract executors in the handling of problems and disputes arising during the fulfillment of contract;

4. To handle, together with the contract executors, all relevant contract documents and to assume responsibility for setting up contract files and records;

5. To stop action under contracts that are contrary to legal provisions and to promptly report such cases to the contract administering organization and to the executive in charge of the unit in question;

6. To participate according to law in the negotiations, mediations, arbitrations, and law suits arising from contract disputes.

**Article 6.** The main duties of the contract executors are:

1. To sign, modify, and terminate contracts according to law;

2. To request relevant parties to examine the contracts about to be concluded;

3. To accept responsibility for the conscientious fulfillment of contracts signed by them, and to inspect the ways the contracts are being fulfilled;

4. To promptly inform the contract administrator of any problems arising in the fulfillment of the contracts and to suggest at the same time solutions to the problem, if necessary to report directly to the responsible person in charge of the unit in question;

5. To participate according to law in negotiations, mediation, arbitration, and lawsuits regarding disputes from the contract;

6. To prepare proper custody of all documents relevant to the fulfillment, alteration, or dissolution of the contracts and to transmit them promptly to the contract administrator to keep on record.

**Article 7.** The contract administering organization works under the guidance of the executive in charge of the unit in question and receives directives from the contract administering organization of the department of higher authority. The contract administrator bears responsibility for persons directly in charge of business affairs and for the contract administering organization.

**Article 8.** Contract administrators and contract executors may assume duties only after they have been examined and approved by the contract administering organization of the directly superior commercial department. The examination shall comprise: understanding and mastery of the "Economic Contract Law" and relevant legal provisions and ability to apply the laws and legal provisions. Specific conditions and methods of the examination shall be determined by the commercial departments of provincial rank.

Contract administrators and contract executors who have been examined and approved by the local industry and commerce administrations, need not undergo any further examination.

### Chapter 3. Supervision and Examination of Contracts

**Article 9.** In all commercial transactions or cases of economic cooperation, excepting those that are immediately settled, written contracts must be signed. Agreements on all contract terms arrived at by means of an exchange of correspondence, telegrams, or telex shall be regarded as written agreements.

**Article 10.** Anyone signing a contract as representative or contract executor must show a document in evidence of his status as representative or a "document of authorization" that clearly indicates the scope of his powers. Anyone without credentials in evidence of his status as representative or without a "documents of authorization" must not sign contracts on behalf of a legal person.

Commercial departments in all localities must institute systems of issuing "documents of authorization," according to the particular conditions of the organization or unit concerned. If the local industry and commerce administration has issued blank forms of contracts, powers of attorney, and documents of authorization, they shall be used as they prescribe.

**Article 11.** If there is uncertainty about the capabilities (including qualifications and credit standing) of the other party to a contract to be concluded, it is necessary, in addition to asking for the documents mentioned in Article 10, to ask the other contract party for a copy of its registration with the industry and commerce administration, a bank statement of credit standing, or for a guarantee. The guarantor must be an economic entity that is qualified as a legal person and is capable of assuming the responsibility in question.

Commercial enterprises must not provide guarantees for enterprises or individuals or those belonging to other departments of whose capabilities (including qualifications and credit standing) they are uncertain.

**Article 12.** Before coming into force, contracts shall be examined by the contract administrator, and stamped with the special seal for contracts or the common seal of the unit concerned. However, an exception may be made in case of urgent business matters, and if provision for such exceptions is stated on the "documents of authorization," in which case a contract shall come into force immediately on being signed by the authorized person and stamped with the special seal for contracts or the common seal of the unit concerned. Contracts with considerable impact on the national economy and the people's livelihood, on market supplies, or on the economic results of an enterprise, must be examined by the executive in charge of the enterprise in question and its



contract administering organization. Contracts of particular importance, or if particularly required by law or policy, must be submitted for examination to the higher authority (contract administering authority), and shall be approved by the competent department according to legally prescribed procedure.

**Article 13.** Contract examination shall mainly focus on:

1. Whether both signators of the contract are qualified to sign;
2. Whether both sides sign of their own free will and on the basis of equality;
3. Whether both sides have the capacity to fulfill the contract;
4. Whether the contract conforms to state law, policy, and plans;
5. Whether contract objectives are feasible;
6. Whether procedures in signing the contract conform to legal provisions;
7. Whether the main clauses of the contract contain provisions on the items mentioned in Article 12 of the "Economic Contract Law of the PRC," as well as accurate wording on place, date, times of fulfillment in installments, and method of transportation.

**Article 14.** Specific norms to be examined in contracts and specific division of labor in the examination of contracts shall be determined by commercial administrations of provincial rank.

**Article 15.** In case contracts have to be notarized and verified, notarization and verification shall be applied for to the legally designated agencies.

**Article 16.** After a contract has been signed according to law, each party shall hand its original to the contract administrator of its unit for safekeeping. A copy shall be held by the contract executor for his use, and a copy, if necessary, sent to be kept by the unit in question.

**Article 17.** The contract administrator shall number and register all contracts that have become effective, prepare a file for each separately, in which all documents concerning the contract shall be kept. Contracts that have been completed shall be kept for as long as accounting documents are to be kept.

**Article 18.** After a contract shall have become effective, occasional checks shall be made as to the way it is being fulfilled. If any problem should arise, the contract executor shall immediately inquire into the case. In case of need, and with the approval of the executive in charge of the unit, an inquiry may be made into the specifications of the contract and into whether the other party is

capable of fulfilling the contract. If the other party is indeed unable to fulfill the contract, remedial measures must immediately be taken and responsibility for the violation of the contract inquired into according to law.

**Article 19.** Contract modifications, assignments, and dissolutions must be effected according to the provisions of the law.

**Article 20.** In case a dispute arises from the contract, the contract executor must immediately report this to the contract administrator, with whose assistance a resolution of the conflict may be negotiated in accordance with relevant legal provisions.

The resolution by negotiation of a contract dispute shall be fixed in a written agreement, which shall be executed; if no agreement is reached, mediation may be instituted according to Chapter 4 of the present Rules, or an application for arbitration may be filed directly with the economic contract arbitration agency, or a suit may be filed directly with the people's court.

**Article 21.** All applications for arbitration filed with the economic contract arbitration agency and all applications and briefs in connection with the lawsuit filed with the people's court must be examined and approved by the legal representative of the unit in question and the contract administering organization.

**Article 22.** While units will periodically report to industry and commerce administrations on contract fulfillments, commercial departments of county, municipal, and higher ranks must collectively submit itemized reports to the legal department of the Ministry of Commerce.

#### Chapter 4. Mediation of Contract Disputes

**Article 23.** The term "mediation" in these Rules refers to the mediation of contract disputes by contract administering organs of commercial departments of all ranks, if the disputes could not be resolved in negotiations between the enterprises or industrial units themselves.

**Article 24.** If possible, mediation should be carried out on the spot.

**Article 25.** In case of contract disputes between commercial enterprises and industrial units under the same common higher authority within the same province (including autonomous region, centrally administered municipality, thus hereafter), mediation shall be carried out by the contract administering organization of the common directly superior department in charge of the parties concerned, or the relevant department designated by the common higher authority.

In case of contract disputes between commercial enterprises and industrial units belonging to two different provinces or those without a common superior authority, mediation shall be carried out by the contract administering organization of the directly superior department in charge of one party if so agreed upon by both parties, or by the contract administering organization of the directly superior department, up to provincial rank, in charge of the defendant.

In case of nationwide contract conflicts of great impact, involving amounts of 10 million yuan or more, the contract administering organization of the provincial commercial department may also request a relevant business department or the legal department of the Ministry of Commerce to mediate.

**Article 26.** In conducting mediation, the contract administering organs of the commercial departments of all ranks must firmly adhere to the principle of having the parties act voluntarily and as equals. After all facts have been ascertained and the responsibility clearly established, the parties shall be urged to understand each other's positions and come to an agreement.

If successful, a mediation agreement shall be written up. If one party reneges on the mediation-agreement, the other party may apply to the economic contract arbitration agency for arbitration or file suit in the people's court.

**Article 27.** Mediation shall be applied for within 6 months from the day the injured party knows or should have known of the infringement of its rights.

#### Chapter 5. Penalties and Rewards

**Article 28.** If no economic loss is incurred in any of the following circumstances, the person directly responsible or the responsible leadership shall be subjected to criticism and education; if economic losses are incurred, disciplinary sanctions, administrative sanctions, or economic penalties shall be imposed, depending on the severity of the cases:

1. In case a written contract should have been signed, but signing was refused, resulting in economic loss to one or both parties;
2. In case contracts were signed without the use of, or without checking of "documents of authorization," or with the issue or use of improper "documents of authorization," resulting in economic losses;
3. In case the legal representative or contract executor does not fulfill his duties when signing a contract or during its fulfillment, resulting in economic losses, or leading to contract disputes which in turn result in having to pay compensation or penalties.

4. In case a contract executor loses or willfully destroys the contract or its attachments, resulting in economic losses;

5. If violations of contract are not pursued, resulting in major losses;

6. In case economic losses are incurred due to dereliction of duties by contract administrators.

**Article 29.** In case of any of the following acts on the part of contract administrators and contract executors, they shall receive rewards and encouragements, such as being granted honorable titles, given rewards, cited for meritorious service, promoted in rank or in position, depending on the circumstances of the case in question:

1. Conscientious fulfillment of duties and responsibilities, with outstanding achievements in work performance;
2. Merit in preventing accidents or remedial action in case of accidents, preventing major losses to state and enterprise interests;
3. Any other event that would deserve encouragement and rewards.

**Article 30.** All decisions on the respective sanctions and rewards, and the execution of such, shall be carried out according to the relevant regulations of the "State Council's Provisional Rules on Rewards and Penalties for State Personnel" and the "Regulations on Penalties and Rewards for Enterprise Personnel." Cases of Article 28 of the present Rules, which have to be investigated as to criminal responsibility, shall be handed over to the judicial authorities to deal with.

**Article 31.** All local commercial departments may determine specific contract administration systems and methods in line with the present Rules.

**Article 32.** Interpretation of the present Rules shall rest with the Ministry of Commerce.

**Article 33.** The present Rules shall come into force on the day of their promulgation.

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**NPC Approval of Mexican Consular Treaty**  
40050302b Beijing ZHONGHU RENMIN  
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[Decision of the NPC Standing Committee on the Approval of the "Consular Treaty Between the PRC and the United Mexican States" (Adopted on 23 June 1987)]

[Text] The Standing Committee of the Sixth NPC at its 21st Session decided: The "Consular Treaty Between the PRC and the United Mexican States, signed by Wu Xueqian, member of the State Council and concurrently Minister of Foreign Affairs, on behalf of the PRC at Beijing on 7 December 1986, is approved.

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**State Council Proposal of Mexican Consular Treaty**

40050302c Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 p 947

[State Council Proposal Requesting the Deliberation of the "Consular Treaty Between the PRC and the United Mexican States" (6 June 1987)]

[Text] To the NPC Standing Committee:

The "Consular Treaty Between the PRC and the United Mexican States" was signed in Beijing on 7 December 1986 by the representatives of the two countries, Foreign Minister Wu Xueqian and Mexican Foreign Minister B.S. Amor.

The "Consular Treaty Between the PRC and the United Mexican States" is an agreement arrived at in friendly negotiations between China and Mexico on the basis of draft proposals put forward by both sides. On examination, all provisions of the said treaty conform to the current laws, regulations, and policies of China and also to the actual conditions prevailing in China and in Mexico.

During the 15 years since establishing diplomatic relations between the PRC and Mexico, friendly relations between the two countries have continuously developed. The signing of the consular treaty will further promote the consular relations, as well as economic, trade, and cultural relations between the two countries.

The State Council approves the "Consular Treaty Between the PRC and the United Mexican States." It is herewith submitted for deliberation with the request to decide on its approval.

State Council Premier Zhao Ziyang, 6 June 1987.

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**PRC-Mexico Consular Treaty**  
40050302d Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 pp 948-960

[Consular Treaty Between the PRC and the United Mexican States (in force since the 30th day after exchange of instruments of ratification, which took place on 15 December 1987 in Mexico City)]

[Text] The PRC and the United Mexican States, in order to develop consular relations between the two countries, to protect the interests of the two states and of the two



peoples, and to promote friendly relations of mutual cooperation between the two countries, have decided to conclude the present consular treaty with the following clauses:

### Chapter 1. Definitions

#### Article 1.

As used in this treaty, the following terms shall have the following meanings:

1. "Consulate" refers to any consulate general, consulate, auxiliary consulate, and consular agency;
2. "Territory" refers to the designated territory within which the consulate shall exercise its duties;
3. "Consul" refers to the person who exercises the duties of head of the consulate;
4. "Consular officials" refers to personnel, including the chief officers, who perform consular duties as official personnel of the consulates;
5. "Consular working personnel" refers to personnel performing administrative, technical, or service duties in the consulates;
6. "Members of the consular staff" refers to consular officials and working personnel of the consulates;
7. "Family members" refers to family members who live together with members of the consular staff and are economically dependent on them.
8. "Consular building" refers to a building or parts of a building for the exclusive use of a consulate together with the land belonging to such building, regardless of ownership.
9. "Consular records" refers to all documents and correspondence, clear and secret telegraphic codes, seals, magnetic tapes, video tapes, films, photographs, registers, accounts books, and all implements used for their storage and protection.
10. "Ships of a dispatching country" refers to ships which are entitled by the law of the dispatching country to fly its flag, excluding its naval vessels;
11. "Aircraft of a dispatching country" refers to aircraft registered in a dispatching country and showing insignia of their registration, excluding its military aircraft;
12. "Citizens of a dispatching country" refers to natural and legal persons who are of the nationality of the dispatching country according to the laws of the dispatching country.

### Chapter 2. Establishment of Consulates and Appointment of Members of the Consular Staff

#### Article 2.

1. The dispatching country may establish consulates in the territory of the receiving country only after having received that country's consent to do so.
2. The dispatching country and the receiving country shall determine in mutual negotiations the location, rank, territory, and number of personnel of consulates as well as any changes in these matters.

#### Article 3.

1. The dispatching country shall send a note through diplomatic channels to the receiving country on the appointment of a consul. The note shall state the name, post and rank, territory, location, and ranking of the consulate.
2. After receipt of the note, the receiving country shall acknowledge the appointment. In case the receiving country refuses to accept the appointment, it may do so without giving any reason.
3. After being accepted by the receiving country, the consul may exercise his duties. Before receipt of the acceptance, the consul may exercise his duties on a temporary basis.
4. After accepting the appointment of a consul, the receiving country shall immediately inform the local authorities in charge of the territory in question and take all necessary measures to enable the consul to exercise his duties and to enjoy the facilities, privileges, and exemptions provided for in the present treaty.

#### Article 4.

1. If a consul for some reason cannot exercise his duties or if his post is temporarily not occupied, the dispatching country may appoint a consular official of that consulate, or of another consulate in the receiving country, or a diplomat of the embassy in the receiving country to act as deputy consul. The dispatching country should notify the receiving country in advance of the full name and original post and rank of the deputy consul.
2. A deputy consul shall enjoy the same facilities, privileges, and exemptions as a consul.
3. A diplomat appointed as deputy consul shall retain the privileges and exemptions due to him as a diplomat.

#### Article 5.

The dispatching country shall in due time inform the receiving country of the following:

1. The full names, post and rank, arrival, final departure or termination of services of consular staff, as well as any changes in their duties during the time they serve at the consulate;

2. The full names, nationality, arrival, and final departure of family members, as well as a person's becoming family member or ceasing to be family member.

#### Article 6.

The relevant authorities in the receiving country shall, according to their regulations, issue consular staff and their family members appropriate identification documents, excepting those who are citizens or permanent residents of the receiving country.

#### Article 7:

Consular officials shall be citizens of the dispatching country, and must also not be permanent residents of the receiving country.

#### Article 8.

1. The receiving country may at any time notify the dispatching country through diplomatic channels, and without the need to give any reason, that one of its consular officials is *persona non grata*, or that a member of its working personnel is not acceptable.

2. In case of an event of the preceding paragraph, the dispatching country shall recall the person in question. If the dispatching country does not recall the person in question within a reasonable period of time, the receiving country shall have the right to refuse to recognize that person as a member of the consular staff.

### Chapter 3. Consular Duties

#### Article 9. The duties of consular officials comprise:

1. Protecting the rights and interests of the dispatching country and its citizens according to international law and rendering assistance to the citizens of the dispatching country;

2. Fostering increased economic, trade, scientific and technological, cultural, and educational relations between the dispatching and the receiving country, and promoting in any other way relations of friendly cooperation between the two countries;

3. Investigating by all legal means the economic, trade, scientific and technological, cultural, and educational conditions of the receiving country, and reporting on these matters to the government of the dispatching country.

4. Carrying out all assignments by the dispatching country, as long as they are not forbidden by the laws and regulations of the receiving country and as long as they are not opposed by the receiving country.

#### Article 10.

1. Consular officials may:

a. Handle matters concerning citizenship, according to the laws of the dispatching country;

b. Register citizens of the dispatching country;

c. Register births and deaths of citizens of the dispatching country;

d. Perform weddings between citizens of the dispatching country and issue marriage certificates, according to the law of the dispatching country.

2. The provisions of items c and d of the preceding paragraph do not preclude the duty of the parties to observe the relevant laws and regulations of the receiving country.

#### Article 11.

1. Consular officials are authorized to issue, extend, and cancel passports or other travel documents of citizens of the dispatching country, as well as to alter such documents.

2. Consular officials are authorized to issue visas, travel documents, and other corresponding documents to persons travelling to the dispatching country.

#### Article 12.

1. Consular officials are authorized to perform the following duties, in accordance with the laws and regulations of the dispatching country:

a. Drawing up all kinds of documents to be used in the dispatching country, if and when requested by individuals of whatever nationality;

b. Drawing up all kinds of documents for use outside the dispatching country, if and when requested by citizens of the dispatching country;

c. Translating documents into the language of the dispatching or receiving country and certifying the accuracy of translations;

d. Verifying the signature or seal on documents issued by authorities of the dispatching or receiving country.

e. Performing other duties of notarization authorized by the dispatching country and not objected to by the receiving country.

2. Documents, copies of documents, excerpts, or translations certified by consular officials, as well as documents verified by them, must be regarded as official documents or officially certified documents of the dispatching country.

**Article 13.**

1. If a citizen of the dispatching country is arrested, detained, or in any other way deprived of his freedom, the authorities concerned in the receiving country shall as soon as possible notify the relevant consulate.

2. Consular officials have the right to visit and talk to citizens of the dispatching country who are arrested, detained, under house arrest, or in any other way deprived of their freedom, also the right to provide legal assistance and to communicate with them. The authorities concerned in the receiving country must, without the slightest delay, provide facilities for consular officials to interview the above-mentioned citizens.

3. In exercising their rights under paragraph 2 of this article, consular officials must observe the relevant laws and regulations of the receiving country.

**Article 14.**

1. In case citizens of the dispatching country, who are legally incompetent, including persons not yet of age, or who are of restricted capability, need to have guardians or custodians appointed for them, the authorities concerned in the receiving country shall notify the relevant consulate.

2. Consular officials have the right, within the scope permitted by the laws and regulations of the receiving country, to protect the rights and interests of citizens of the dispatching country who are legally incompetent, including persons not yet of age, or who are of restricted capabilities, and may, if necessary, recommend guardians or custodians.

**Article 15.**

1. Consular officials have the right to contact and interview citizens of the dispatching country within their territory. The receiving country must not restrict citizens of the dispatching country in their contacts with and access to the consulate.

2. If citizens of the dispatching country cannot in time protect their rights and interests due to absence from the locality, or for any other reason, consular officials may represent them in court or at other organizations of the receiving country, or arrange for their proper representation, up to the time that the said citizen will appoint his own representation or appear in person to protect his rights and interests.

3. Unless conflicting with laws or regulations of the receiving country, consular officials have the right to accept or temporarily take custody of documents, money, or valuables belonging to citizens of the dispatching country.

**Article 16.**

1. Consular officials have the right to request the relevant authorities of the receiving country to assist in locating citizens of the dispatching country. The relevant authorities of the receiving country shall render this assistance to the best of their ability.

2. As soon as the relevant authorities in the receiving country know of the death, disappearance, or serious accident of a citizen of the dispatching country, they shall immediately notify the consulate. The consular officials may demand of the relevant authorities of the receiving country to furnish information on the circumstances of the accident, death, or disappearance and may also take necessary steps to protect the rights and interests of the citizen involved.

3. As soon as the competent authorities of the receiving country have information of the death of a citizen of the dispatching country, they shall as quickly as possible inform the consulate and also provide proper certification.

**Article 17.**

1. If a citizen of the dispatching country, living outside the receiving country, becomes legatee or beneficiary of a bequest and has to appear in court in connection with the inheritance, but has no one to represent him in the receiving country, the authorities concerned in the receiving country shall immediately notify the consulate of the impending court procedure. Before the legatee or beneficiary will be able to claim his inheritance or bequest, consular officials may represent the citizen before the authorities concerned in the receiving country.

2. If and when the authorities concerned in the receiving country take inventory or seal up inheritances of the above-mentioned kind, consular officials have the right to be present at such procedures.

3. Consular officials have the right to demand that the competent authorities in the receiving country take appropriate measures, in accordance with the law of the receiving country, to protect, take into custody, and administer intestate inheritances in the receiving country belonging to a citizen of the dispatching country, or assets inherited by a citizen of the dispatching country, and to notify the consulate of the measures taken.



4. When executing measures prescribed in paragraph 2 of this article, consular officials may cooperate and ensure representation of the legatee or beneficiary of a bequest if he is a citizen of the dispatching country.

5. On conclusion of an inheritance lawsuit, and on the precondition of satisfying the following conditions, consular officials may on behalf of a citizen of the dispatching country, mentioned in paragraph 1 of this article as legatee or beneficiary of a bequest, accept movable property or money received from the sale of movable and immovable property, to be later transmitted to the said citizen.

a. After payment or guarantee of payment of debts against the inheritance registered within the time limit prescribed by the law of the receiving country;

b. After paying or guarantee of payment of all dues and taxes in connection with the inheritance.

6. If a citizen of the dispatching country, who is not a resident of the receiving country, dies when travelling in the receiving country, but has no one to represent him in the receiving country, his belongings, money, and valuables shall be handed to the consulate, which shall issue a simple receipt.

7. If it becomes necessary to send assets, mentioned in paragraphs 5 and 6 of this article, out of the country or to remit abroad money obtained from the sale of property, the relevant laws of the receiving country must be observed.

#### Article 18.

1. Consular officials have the right to render assistance to ships of the dispatching country, as well as to their captains and crews, when these ships are in inland waters, territorial seas, including ports, or stopping at other places, and the said officials shall also have the right:

a. To go on board, after the ship has received permission for free movement of persons between ship and land, and to interview the captain or any member of the crew, to hear their reports about the ship, its cargo, and its voyage;

b. To investigate accidents during the ship's voyage, provided this will not infringe upon the rights of the competent authorities of the receiving country;

c. To settle disputes, including wage and labor contract disputes, between the captain and his crew, in accordance with the laws and regulations of the dispatching country;

d. To receive inquiries from the captain and members of the crew, and, if necessary, arrange for their hospitalization or repatriation;

e. To accept, check, write out, sign, or verify documents concerning the ships in question;

f. To perform any other assignments entrusted to them by the relevant authorities of the dispatching country concerning the ships in question.

2. On condition of not violating customs, border defense, and quarantine inspection laws and regulations of the receiving country, captains and members of the crew shall be free to visit the consulate and meet with consular officials.

#### Article 19.

1. If the law courts or other competent authorities of the receiving country intend to take compulsory measures against or on board a ship of the dispatching country, or intend to carry out an official search, they must inform the consulate in advance to enable consular officials to be present. In case of urgency, when prior notification is impossible, the competent authority of the receiving country shall immediately after taking the above mentioned action inform the consulate, and at the request of consular officials, without the slightest delay, provide information on the entire circumstances of their action.

2. The provisions of paragraph 1 of this article shall also apply in case the competent authorities of the receiving country take similar action on land against the captain or any member of his crew.

3. The provisions of paragraphs 1 and 2 of this article shall not apply to routine inspection by the competent authorities of the receiving country in such matters as customs, port administration, quarantine, and border defense inspections, also not when the competent authorities of the receiving country take appropriate action to ensure safety of sea navigation or to prevent water pollution.

4. Without being requested by the captain or consular officials nor having obtained their consent, authorities of the receiving country may not interfere in the internal affairs on board vessels of the dispatching country, as long as the peace, security, and public order of the receiving country is not disrupted.

#### Article 20.

1. If a ship of the dispatching country meets with an accident on the inland waters or territorial waters of the receiving country, the competent authorities of the receiving country must as soon as possible inform the consulate, also inform what measures they have taken to save the lives of the crew, or save the ship, its cargo, and any other assets.

2. Consular officials have the right to render assistance to ships of the dispatching country in distress, also to their crews, and passengers, and may for this purpose ask the authorities of the receiving country for assistance.

3. If a ship of the dispatching country has met with an accident, and the ship or materials belonging to that ship or its cargo, are near the coast of the receiving country, or have been moved to a port of the receiving country, and if its captain, owner, shipping company representative, or its insurance company representative are not present or unable to take protective measures and deal with the matter, the competent authority of the receiving country shall as quickly as possible inform the consulate. Consular officials may then take appropriate action on behalf of the ship owner.

4. If a ship of the dispatching country has met with an accident, and neither the ship nor its cargo or other materials are sold or put to use in the receiving country, the receiving country shall not levy customs duty or other charges.

#### Article 21.

Provisions of this treaty relating to ships of the dispatching country shall appropriately apply to its aircraft.

#### Article 22.

Consular officials have the right to transmit judicial documents, documents other than judicial documents, and requests for powers of attorney, as far as permitted by the laws and regulations of the receiving country, but if separate agreements have been concluded between the dispatching country and the receiving country, these agreements shall be followed.

#### Article 23.

Consular officials may perform their duties only within their territory, but with the consent of the receiving country they may also perform duties outside their territory.

#### Article 24.

When performing their duties, consular officials may establish contact with the local authorities in charge of their territory, and, if necessary, also with the central authorities in charge, but only within the limits of the laws, regulations, and customs of the receiving country.

### Chapter 4. Facilities, Privileges, and Exemptions

#### Article 25.

1. The receiving country shall provide all facilities to consulates that will enable them to perform their normal duties.

2. The receiving country shall adopt necessary measures to enable consular officials to perform their duties and to enjoy the facilities, privileges, and exemptions provided for in this treaty.

3. The receiving country shall show due respect for consular officials of the dispatching country and take all measures to prevent any violations of their persons, their freedom, and their dignity.

#### Article 26:

The receiving country shall, in accordance with its laws and regulations, provide facilities for consulates of the dispatching country to obtain appropriate space to house the consulates in the receiving country, and for living quarters for consular officials and consular working personnel who are nationals of the dispatching country.

#### Article 27.

1. The dispatching country may display the insignia of its country on the consulate building and affix a sign inscribed with the languages of the two countries.

2. The dispatching country may fly its flag on the consulate building, on the residence of the consul, and on means of transportation used by the consul in the performance of his duties.

#### Article 28.

1. Consulate buildings shall be inviolable. Authorities of the receiving country may not enter consulate buildings without the consent of the consul or ambassador of the dispatching country or anyone designated by one of them.

2. The provision of paragraph 1 of this article also applies to the residence of the consul.

3. The receiving country is under obligation to adopt measures for the protection of the consulate building, to prevent encroachments or damages, and shall also prevent disturbances of the peace at the consulate or impairment of its dignity.

4. The consulate building, the consulate's equipment, property, and means of transportation must not be requisitioned.

5. The consulate building must not be used for purposes incompatible with the performance of consular duties.

#### Article 29.

Consular records shall be inviolable, wherever they are and at whatever time. Documents and materials not of an official character may not be kept among the records of the consulate.

**Article 30.**

1. The consulate has the right to freely communicate with its government, embassy, and other consulates. For this purpose, the consulate may use public communication facilities, clear and coded telegrams, diplomatic or consular couriers, and diplomatic or consular pouches. The installation and use of wireless transmitters is only permissible with the consent of the receiving country.

2. Sealed consular pouches, clearly marked as such, shall be inviolable; they may not be opened or retained by the authorities of the receiving country. Consular pouches must only contain official documents or materials for official use.

3. Consular couriers of the dispatching country shall enjoy the same facilities, privileges, and exemptions as granted by the receiving country to diplomatic couriers. Consular couriers must be nationals of the dispatching country, and must not be permanent residents of the receiving country, and must be in possession of official documents in evidence of their status.

4. Transportation of consular pouches may be entrusted to ship captains or aircraft captains, who shall have official documents specifying the number of pouches carried, but will not be regarded as consular couriers. By agreement with the local authorities of the receiving country, consular officials may directly, and without hindrance, take delivery of the pouches from ship captains or aircraft captains.

**Article 31.**

1. Consular officials are not subject to the criminal jurisdiction of the receiving country, and are not subject to any form of arrest or detention.

2. Consular officials are not subject to civil and administrative jurisdiction of the receiving country, with the exception of the following civil suits:

a. Suits about private real estate in the territory of the receiving country;

b. Suits about inheritance, if the party is not representing the dispatching country, but involved as executor of a will, legatee, or beneficiary of a bequest;

c. Suits about vocational or commercial activities, engaged in in the receiving country, outside of official duties;

d. Suits resulting from contracts, not concluded by the party as representative of the dispatching country;

e. Suits filed by a third party with regard to damages caused by traffic accidents in the receiving country.

3. Consular officials shall not be subject to any enforcement measures, except in the cases of items 1 to 5 of the preceding paragraph. If the receiving country intends to take enforcement measures in the above instances, it must do so without injury to the persons of the consular officials and without infringement of the consul's right to inviolability of his residence.

4. Consular working personnel are not subject to criminal, civil, and administrative jurisdiction of the receiving country with regard to acts executed in the performance of their duties, however, with the exception of civil suits of items 4 and 5 of paragraph 2 of this article.

**Article 32.**

1. The dispatching country may abandon the right to any of the exemptions provided by this treaty for consular staff and their families. An abandonment of this nature must in all cases be clearly expressed in writing through diplomatic channels.

2. If a person, who enjoys a certain exemption according to the provisions of this treaty, institutes a lawsuit, he may not claim the exemption if a countersuit is filed against him in direct connection with his own suit.

3. If an exemption to civil or administrative proceedings is abandoned, it shall not be taken as abandonment of exemption from the enforcement decision; the abandonment of the latter must again be notified in writing.

**Article 33.**

1. Consular officials are not obliged to give evidence in the law courts or before authorities of the receiving country.

2. Consular working personnel may be asked to give evidence in the law courts or before the authorities of the receiving country.

3. Consular working personnel may not refuse to give evidence, but are not obliged to give evidence about matters relating to the performance of their official duties, or to provide relevant official or other documents. Consular working personnel have the right to refuse to give testimony to determine the law of the dispatching country.

4. When requesting consular working personnel to testify, the competent authorities of the receiving country must avoid hindering them in the performance of their duties. If possible, they shall obtain written testimony, or record their testimony at their residence or at the consulate.



**Article 34.**

Consular staff must be exempted from any kind of military duties, individual work duties, and public service.

**Article 35.**

Consular staff must be exempted from obligations to register as foreigners or to obtain residence permits, prescribed by laws or regulations of the receiving country.

**Article 36.**

1. The receiving country must exempt the consulate building and consular staff residences leased by the dispatching country from all levies and taxes.

2. The provisions of the preceding paragraph do not apply to levies and taxes to be paid according to the laws and regulations of the receiving country by persons with whom the dispatching country or its representative has concluded contracts, and also does not apply to the payment of special service charges.

**Article 37.**

Consular staff must be exempted from all state, regional, or municipal levies and taxes collected by the receiving country on persons and articles, with the exception of the following items:

1. Levies and taxes on private real estate in the territory of the receiving country;
2. Inheritance tax and tax on bequests, however, excepting cases of paragraph 6 of article 38 of this treaty;
3. Levies and taxes on private income earned in the receiving country outside of official duties;
4. Specially designated service charges;
5. Indirect taxes normally included in the prices of commodities or in service charges;
6. Registration fees, law court fees, mortgage taxes, as well as stamp taxes, however, excepting cases of article 36 of this treaty.

**Article 38.**

1. The receiving country shall permit importation of the following articles free of customs duty:
  - a. Articles and means of transportation for the official use of the consulate;
  - b. Articles for the private use of consular officials;

c. Articles for the private use of consular working personnel imported when entering the country for the first time to take up their positions, including household equipment and household articles.

2. Articles imported for the private use of consular staff must not exceed amounts needed directly by the persons in question.

3. Personal baggage of consular officials is exempted from customs inspection. Inspection is permissible only if there are important reasons to believe that the baggage contains articles other than those mentioned in item 2 of the preceding paragraph or articles that are not permitted to be imported or exported according to the laws and regulations of the receiving country, or articles that are subject to the controls of the quarantine law. Inspection must be carried out in the presence of the consular official in question or his representative.

4. Customs duty mentioned in this article does not comprise charges for storage, transportation, or similar services.

5. When importing or exporting articles, the consulate or consular staff must not violate provisions of the receiving country on the limitation or prohibition of articles to be imported or exported.

6. On the death of a consular staff, the receiving country shall allow shipping out of the country all movable possessions in the receiving country belonging to the deceased, because he was a member of the consular staff, free of customs duty, inheritance tax, or property transfer taxes or levies. However, articles that were bought and kept in the receiving country of which exports are forbidden, must not be shipped out of the country.

**Article 39.**

The receiving country shall ensure freedom of movement for consular staff and their families, except into areas to which entry is forbidden or restricted for reasons of state security.

**Article 40.**

1. The consulate may collect consular fees or service charges within the territory of the receiving country, according to the laws and regulations of the dispatching country.
2. Consular fees and service charges mentioned in the preceding paragraph, as well as receipts for such, are exempt from all levies and taxes of the receiving country.

**Article 41.**

Except in the case of paragraph 2 of article 42 [as published], family members of consular staff shall enjoy the same privileges and exemptions as consular officials and consular working personnel, unless they are citizens or permanent residents of the receiving country.

**Article 42.**

Consular working personnel who are citizens or residents of the receiving country shall not enjoy the privileges and exemptions of this treaty, excepting the case of paragraph 3 of article 33.

**Chapter 5. General Clauses**

**Article 43.**

1. The embassy of the dispatching country in the receiving country may exercise consular duties. Diplomatic staff designated to perform consular duties shall enjoy the rights, facilities, privileges, and exemptions prescribed by this treaty for consular officials.

2. The embassy of the dispatching country shall inform the Ministry of Foreign Affairs of the receiving country of the full name, post, and rank of diplomatic personnel performing consular duties.

3. Diplomatic staff designated to perform consular duties shall retain enjoyment of their rights, facilities, privileges, and exemptions as diplomatic staff.

**Article 44.**

1. Personnel who enjoy privileges and exemptions according to this treaty are under obligation to respect the laws and regulations of the receiving country, including traffic control regulations, without thereby impairing their privileges and exemptions.

2. The consulate, consular staff, and members of their families must observe the laws and regulations of the receiving country regarding insurance for means of transportation.

3. Consular officials are not permitted to engage in vocational or commercial activities for private gain in the receiving country.

**Chapter 6. Final Clauses**

**Article 45.**

1. This treaty requires ratification; instruments of ratification shall be exchanged in Mexico City. This treaty shall come into force on the 30th day after the exchange of instruments of ratification.

2. This treaty shall continue to remain in force unless one of the contracting parties notifies the other party 6 months in advance in writing through diplomatic channels of its intention to terminate the treaty.

The present treaty was signed in Beijing on 7 December 1986, made out in duplicate, each copy in Chinese and in Spanish, each version having equal validity.

Wu Xueqian (Signature), Plenipotentiary of the PRC, Minister of Foreign Affairs

Bernardo Sepulveda Amor, (signature), Plenipotentiary of the United Mexican States, Minister of Foreign Affairs

9808

**NPC Standing Committee Approves Consular Treaty With Bulgaria**

40050302e Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 p 960

[Decision of the NPC Standing Committee on the Approval of the "Consular Treaty Between the PRC and the People's Republic of Bulgaria" (Adopted on 23 June 1987)]

[Text] The Standing Committee of the Sixth NPC at its 21st Session decided: The "Consular Treaty Between the PRC and the People's Republic of Bulgaria," signed by Wu Xueqian, member of the State Council and Minister of Foreign Affairs, on behalf of the PRC at Beijing on 6 May 1987, is approved.

9808

**State Council Proposal of Consular Treaty With Bulgaria**

40050302f Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 pp 860-861

[State Council Proposal Requesting the Deliberation of the "Consular Treaty Between the PRC and the People's Republic of Bulgaria" (6 June 1987)]

[Text] To the Standing Committee of the NPC:

The "Consular Treaty Between the PRC and the People's Republic of Bulgaria" was signed at Beijing on 6 May 1987 by Foreign Minister Wu Xueqian and the Bulgarian Foreign Minister Petur Mladenov, each representing his country.

The "Consular Treaty Between the PRC and the People's Republic of Bulgaria" is an agreement arrived at through friendly negotiations on the basis of drafts put

forward by both the Chinese and the Bulgarian sides. On examination, the various provisions of the treaty are found in conformity with the present Chinese laws, regulations, and policies, and in conformity with the actual conditions prevailing between China and Bulgaria.

In recent years, Chinese-Bulgarian relations have experienced great progress. The signing of the consular treaty by both countries will provide both countries with guidelines for the future handling of consular affairs and promote further development of friendly relations between the two countries.

The State Council approves of the "Consular Treaty Between the PRC and the People's Republic of Bulgaria" and submits it herewith for deliberation, with the request to decide on its approval.

State Council Premier Zhao Ziyang

6 June 1987

9808

#### **PRC-Bulgarian Consular Treaty**

40050302g Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No. 29, 30 Dec 87 pp 961-974

[Consular Treaty Between the PRC and the People's Republic of Bulgaria (This treaty came into force on the 30th day after the exchange of instruments of ratification, which took place on 3 December 1987 at Sofia)]

[Text] In order to strengthen consular relations, and as beneficial for the protection of the interests of the two countries and the two peoples, and for the promotion of even closer relations between the two countries, the PRC and the People's Republic of Bulgaria decided to conclude this treaty and to this purpose have agreed on the following clauses:

### **Chapter 1. Definitions**

#### **Article 1. Definitions**

In this treaty, the following terms shall have the following meanings:

1. "Consulate" refers to consulates general, consulates, auxiliary consulates, and consular agencies;
2. "Territory" refers to a certain area in the receiving country in which the consulate exercises its duties;
3. "Consul" refers to the person appointed by the dispatching country to head a consulate;

4. "Consular officials" refers to personnel appointed by the dispatching country to positions to perform consular duties, including the consul;

5. "Consular working personnel" refers to personnel performing administrative, technical, and service duties in the consulate;

6. "Consular staff" refers to consular officials and consular working personnel;

7. "Private service personnel" refers to personnel employed to render personal services to consular staff;

8. "Members of family" refers to the spouse and under age children of consular staff;

9. "Consulate" refers to the building or part of a building exclusively used for the purposes of the consulate, together with the land attached to it, regardless of its ownership;

10. "Consular records" refers to all books, documents, letters and telegrams, accounts books, seals and stamps, films, tapes, and registers of the consulate, as well as open and secret codes, record cards, and all equipment for their protection and storage;

11. "Ships of the dispatching country" refers to all ships that according to the laws of the dispatching country are entitled to fly the flag of the dispatching country, excluding naval vessels;

12. "Aircraft of the dispatching country" refers to all aircraft that are registered in the dispatching country according to the laws of the dispatching country and that display the insignia of the dispatching country, excluding military aircraft.

### **Chapter 2. Establishment of Consulates, Appointment of Consular Staff**

#### **Article 2. Establishment of Consulates**

1. Consulates may be established within the territory of the receiving country only after obtaining its consent to do so;
2. Determination of the location, rank, and territory of a consulate, as well as any later changes, require the approval of the dispatching country and the receiving country.

#### **Article 3. Appointment, Acceptance of Consuls**

1. The dispatching country shall notify in advance through diplomatic channels, and the receiving country shall signify acceptance of a certain person as consul. No reason need be given by the receiving country when it refuses to accept a person as consul.



2. The dispatching country shall submit through diplomatic channels to the receiving country the consul's letter of appointment. The letter of appointment shall state the consul's full name, position and rank, also the territory of the consulate, as well as its rank and location.

3. After receipt of the consul's letter of appointment, the receiving country shall as quickly as possible issue a certificate of consul.

4. On receipt of the certificate of consul issued by the receiving country, the consul may start performing his duties as consul. Prior to that, he may, with the consent of the receiving country, temporarily act as consul.

5. On having issued a certificate of consul or permitted the temporary exercise of the duties of consul, the receiving country shall immediately inform the authorities in the consular territory, and take necessary measures to enable the consul to perform his duties and to enjoy the rights, privileges, and exemptions prescribed in this treaty.

#### **Article 4. Duties of Temporary Acting Consuls**

1. If a consul is unable to perform his duties or his post is vacant, the dispatching country may appoint a consular official of the said consulate, or at any other consulate in the receiving country, or members of the diplomatic staff of the dispatching country in the receiving country to temporarily be acting consul.

2. The receiving country should be notified in advance and through diplomatic channels of the full name and original position of the acting consul.

3. The acting consul shall enjoy the same privileges and exemptions as granted to a consul by the provisions of this treaty.

4. A member of the diplomatic personnel appointed as acting consul shall continue to enjoy the diplomatic privileges and exemptions that he is entitled to as diplomat.

#### **Article 5. Notification of Arrival in and Departure From the Country**

The dispatching country shall in good time give written notice of the following items to the receiving country:

1. The full name, position, and rank of consular staff, their date of arrival in the country, and the date of their final departure from the country, or the termination of their services, as well as any changes in their duties during their service at the consulate;

2. The date of arrival of family members of consular staff and the date of their final departure, and if and when anyone becomes family member or ceases to be family member;

3. The names, nationality, and duties of private service personnel, as well as their date of arrival in and departure from the country.

4. The employment and dismissal of consular staff who are nationals or permanent residents of the receiving country.

#### **Article 6. Nationality of Consular Officials**

Consular officials must be of the nationality of the dispatching country, also they must not be permanent residents of the receiving country.

#### **Article 7. Identity Certificates**

1. The receiving country shall issue to consular staff and their family members free of charge certificates indicating their status.

2. The preceding paragraph does not apply to nationals or permanent residents of the receiving country.

#### **Article 8. Termination of Services of Consular Staff**

1. The receiving country may at any time inform the dispatching country through diplomatic channels declaring a certain consular official to be *persona non grata* or a certain member of the consular working personnel as unacceptable. If that happens, the dispatching country shall recall the person in question or terminate his duties at the consulate.

2. If the dispatching country does not comply with its obligation of the preceding paragraph, the receiving country shall have the right to cancel the certificate of consul or to discontinue recognizing the person in question as a member of the consular staff.

3. In the event of cases of paragraphs 1 and 2 of this article, the receiving country need not give the dispatching country any reasons for its decision.

### **Chapter 3. Consular Duties**

#### **Article 9. Duties of Consular Officials**

Consular officials are authorized to perform the following duties:

1. Protecting the dispatching country and its citizens in the receiving country, which includes the rights and interests of natural as well as legal persons;

2. Rendering help and assistance to citizens of the dispatching country, which includes natural as well as legal persons;

3. Promoting economic, trade, cultural, scientific and technological, educational, and tourist relations between the two countries;

4. Investigating by all legitimate means the political, economic, trade, cultural, scientific, and tourist developmental conditions of the receiving country.

**Article 10. Performance of Consular Duties**

1. Consular officials may perform consular duties only within the consular territory. With the consent of the receiving country, consular officials may perform consular duties outside the consular territory.

2. In the performance of their duties, consular officials may have business contacts with the following authorities:

- a. The authorities in charge of the consular territory;
- b. The central authorities of the receiving country, but only to the extent that the laws and customs of the receiving country permit.

3. Consular duties prescribed by this treaty may also be performed by the dispatching country's embassy in the receiving country. If that happens, the members of the diplomatic personnel appointed to perform consular duties will continue to enjoy privileges and exemptions due to them as members of the diplomatic staff.

4. The embassy of the dispatching country shall inform the Ministry of Foreign Affairs of the receiving country of the full name, position, and rank of the diplomatic staff who are performing consular duties. The diplomatic staff appointed to do consular duties shall enjoy the rights and have the obligations of consular officials granted and prescribed by the present treaty.

**Article 11. Passport and Visa Issuance**

Consular officials are authorized:

1. To issue to citizens of the dispatching country passports and travel documents in lieu of passports, as well as to supplement, extend, or cancel the above-mentioned passports and travel documents in lieu of passports;
2. To issue visas.

**Article 12. Registration of Citizens of the Dispatching Country**

Consular officials are authorized to register citizens of the dispatching country whether permanently or temporarily residing in the consular territory. Such registration does not exempt these citizens from the obligation to observe the relevant laws of the receiving country regarding registration of foreigners.

**Article 13. Duties Concerning Civil Status**

1. Consular officials are authorized:

- a. To accept applications in connection with nationality questions, as long as such actions do not conflict with the laws of the receiving country;

b. To register births and deaths of citizens of the dispatching country, and to issue certificates on such events;

c. To perform weddings between citizens of the dispatching country and to issue marriage certificates.

2. The provisions of the preceding paragraph do not exempt said citizens from the obligation to observe the laws of the receiving country regarding registration of marriages, births, and deaths.

**Article 14. Representation of Citizens in the Courts of Law and Before Other Authorities of the Receiving Country**

1. If a citizen of the dispatching country is not present or cannot for other reasons protect his rights and interests, consular officials are authorized according to the law of the receiving country to represent the said citizen, whether natural person or legal person, in the courts of law or before other authorities, or to arrange appropriate representation for the said citizen.

2. The representation mentioned in the preceding paragraph shall end as soon as the said citizen will designate his own representative or will himself be able to protect his rights and interests.

**Article 15. Delivery of Documents**

Consular officials are authorized to deliver judicial and other documents to citizens of the dispatching country who reside in the territory of the receiving country, whether they are natural or legal persons, within the scope permissible according to the laws and regulations of the receiving country.

**Article 16. Protecting and Contacting Citizens of the Dispatching Country**

1. Consular officials have the right to freely contact and meet citizens of the dispatching country in the consular territory and to render necessary assistance. The receiving country must not impede citizens of the dispatching country from contacting or entering their consulates.

2. If citizens of the dispatching country are arrested, detained, or in any other form deprived of their freedom in the consular territory, the authorities concerned of the receiving country shall as quickly as possible inform the consulate, and at the latest do so not later than on the 7th day after the mentioned measure had been taken.

3. Consular officials have the right to visit a citizen of the dispatching country who was arrested, detained, or in any other way deprived of his freedom, within 3 days after being notified, and to talk with him and communicate with him, and to visit him again thereafter within a reasonable period of time. According to the law of the receiving country, a consular official has also the right to

visit citizens of the dispatching country who are serving criminal sentences.

4. On the premise that no rights provided by this treaty shall be impaired, consular officials must observe the laws and regulations of the receiving country.

5. The relevant authorities of the receiving country must inform the party in question of the rights prescribed in this article.

#### **Article 17. Duties of Guardianship and Custody**

1. Consular officials have the right to protect, within the confines of the laws of the receiving country, the rights and interests of citizens of the dispatching country who are legally incompetent, including children under age, or who are of restricted capabilities, and may, if need be, recommend for them suitable persons as guardians or custodians.

2. Should there be in the receiving country citizens of the dispatching country who are legally incompetent, including children under age, or who are of restricted capability, and who need guardians or custodians, the competent authorities of the receiving country shall notify the consulate in writing.

#### **Article 18. Duties of Notarization and Authentication of Documents**

1. Consular officials are authorized by the laws of the dispatching country to perform the following duties, unless in conflict with the laws of the receiving country:

a. Accepting documents, drawing up documents, certifying and authenticating various kinds of documents for citizens of the dispatching country, with the exception of documents concerning the establishment or transfer of immovable property located in the receiving country;

b. Drawing up and accepting for custody testaments and other unilateral legal declarations by citizens of the dispatching country according to the laws of that country;

c. Authenticating the signatures or seals on documents issued by the authorities of the dispatching country or receiving country and certifying copies, translations, or excerpts of such documents;

d. Accepting and temporary safekeeping of valuables, money, or certificates for citizens of the dispatching country;

e. Performing other acts of notarization authorized by the laws of the dispatching country.

2. Documents, copies of documents, excerpts, and translations certified by consular officials as well as authenticated documents shall be regarded as official documents

or officially certified documents of the dispatching country. If such documents are used in the receiving country, they must not conflict with the laws of the receiving country.

#### **Article 19. Duties in Connection with Estates**

1. If the competent authorities of the receiving country are informed that a citizen of the dispatching country has died in the territory of the receiving country, they shall as quickly as possible notify the consulate and submit copies of the death certificate or other documents certifying the death.

2. If the deceased citizen of the dispatching country has left property in the receiving country, but has no heir or executor of his will in the receiving country, the competent authority of the receiving country shall as quickly as possible notify the consulate of all matters concerning the deceased's property, including property in third countries.

3. If a citizen of the dispatching country becomes legatee or beneficiary of a bequest of property located in the receiving country, regardless of the nationality of the deceased, and if the said citizen is not in the receiving country, the competent authorities of the receiving country shall notify the consulate of arrangements regarding the inheritance or regarding his receiving the bequest.

4. When the competent authorities of the receiving country take an inventory or seal up estates mentioned in paragraph 2 of this article, consular officials have the right to be present.

5. If a citizen of the dispatching country is entitled to, or claims to be entitled to inherit property in the receiving country, but cannot attend in person or send a representative to attend court proceedings concerning the inheritance, consular officials may directly or through a representative represent the citizen before the courts of law or other authorities of the receiving country.

6. Consular officials are authorized to accept property located in the receiving country obtained as inheritances or bequests by citizens of the dispatching country who are not permanent residents of the receiving country and to transmit such property to the citizens in question.

7. If a citizen of the dispatching country, who is not a permanent resident of the receiving country, dies during a temporary stay in the receiving country where he has no relatives or representative, the money, documents, and personal belongings which he had with him shall be handed over to the consulate of the dispatching country to be transmitted to his heirs, the executor of his will, or any other person authorized to receive these articles.



8. When performing the duties mentioned in paragraphs 5, 6, and 7 of this article, consular officials must observe the relevant laws and regulations of the receiving country.

#### **Article 20. Assistance to Ships of the Dispatching Country**

1. Consular officials have the right to render assistance to ships of the dispatching country, their captains and crews, if in the territorial waters or inland waters of the receiving country, and they may:

a. Go on board, after the ship has received permission for persons to freely move between ship and shore, interview captain and crew, and receive reports about the ship, its cargo, and its voyage;

b. Investigate any accident that may have occurred during the voyage, on the condition of not impairing the rights of the competent authorities of the receiving country;

c. Take appropriate action to facilitate entry, berthing, and departure of ships into, at, and from ports;

d. Resolve disputes between captain and crew, including disputes about their labor contract;

e. Arrange for medical treatment or repatriation of captain or members of the crew;

f. Accept, examine, draw up, sign, or authenticate documents concerning the ship, according to the laws of the dispatching country;

g. Handle other matters regarding ships entrusted to them by the competent authorities of the dispatching country.

2. When performing the duties mentioned in paragraph 1 of this article, consular officials must observe the laws of the receiving country, and may, furthermore, request assistance from the competent authorities of the receiving country.

#### **Article 21. Notice of Inspections or Compulsory Action on Board Ships**

1. If a law court or other competent authority of the receiving country intends to take compulsory action or carry out an official inspection of a ship or on board a ship of the dispatching country in the territorial waters or inland waters of the receiving country, prior notice must be given to the consulate, so that a consular official or his representative may be present in time when such action is taken. In urgent cases, when the consular official cannot be present in time or the competent authority of the receiving country cannot give prior notice, the competent authority of the receiving country

must notify the consular official immediately after said action was taken and must as quickly as possible furnish full details of the action that had been taken.

2. The provisions of the preceding paragraph shall also apply to similar actions taken by the competent authorities of the receiving country on shore against a captain or member of the crew of a ship of the dispatching country.

3. The provisions of paragraphs 1 and 2 of this article shall not apply to regular customs, passport, quarantine, and harbor control inspections, nor to inspections carried out in connection with the provision of lifesaving equipment for the crew on the high sea or to prevent pollution of the sea, or other action requested and approved by the captain or by a consular official.

4. Unless requested by the captain or a consular official, or unless their prior consent has been obtained, the authorities of the receiving country must not interfere in the internal affairs on board a ship of the dispatching country, as long as neither peace, security, nor public order of the receiving country are disturbed.

#### **Article 22. Assistance in Cases of Accidents**

1. If a ship of the dispatching country meets with an accident or is seriously damaged in the territorial or inland waters of the receiving country, the competent authority of the receiving country shall as quickly as possible notify the consulate of the dispatching country, and inform of the measures taken to protect the ship, the lives of its crew, its cargo, and other property on board.

2. A consular official has the right to render assistance to ship, crew, and passengers, and to take measures to rescue cargo and repair the ship. He may request assistance from the authorities of the receiving country.

3. In the absence of the ship owner, captain, representatives of the shipping company or its insurance company, or if they are unable to take action to protect the ship or to further deal with matters concerning the said ship and its cargo, a consular official may take appropriate measures on behalf of the ship owner.

4. If the ship which has met with an accident, its cargo, or any of its articles are not sold or made available for use in the receiving country, the receiving country must not levy customs duty or other charges.

#### **Article 23. Duties in Connection With Civil Aviation**

Articles 20, 21, and 22 of this treaty shall equally apply in the case of aircraft of the dispatching country.

#### Article 24. Other Consular Duties

With the consent of the receiving country, consular officials may perform duties authorized by the dispatching country which are not prescribed in the present treaty.

#### Chapter 4. Facilities, Privileges, Exemption

#### Article 25. Facilities Granted to Consulates and Their Staff

1. The receiving country shall provide full facilities to enable the consulate to perform its duties.
2. The receiving country shall give due respect to consular staff, and must take all necessary measures to enable the consular staff to perform their duties and to enjoy the facilities, privileges, and exemptions provided in this treaty.

#### Article 26. Use of National Insignia and Flag

1. The insignia and a consular doorplate inscribed with the languages of the dispatching and receiving country may be affixed to the consular building.
2. The flag of the dispatching country may be flown from the consulate building, from the residence of the consul, and on the means of transportation when used by the consul on official business.

#### Article 27. Obtaining Consulate Buildings, Residences of Staff

1. According to the law of the receiving country, the dispatching country or its representative may buy, rent, borrow, construct, or in any other way obtain buildings or part of buildings and land attached to it for use as consulate and as residences for consular staff, as long as they are nationals of the dispatching country and not permanent residents of the receiving country.
2. The receiving country shall render necessary assistance to the dispatching country to obtain buildings or parts of buildings and land for the purposes mentioned in the preceding paragraph.
3. When exercising the rights granted by this article, the dispatching country is not exempted from its obligation to observe the relevant building and city planning laws and regulations of the receiving country.

#### Article 28. Inviolability of the Consulate and of Residences of Consular Officials

1. The consulate, the residence of the consul, and the residences of consular officials are inviolable. Without the consent of the consul, or the ambassador of the dispatching country, or anyone authorized by one of them, or by anyone temporarily exercising the duties of

one of them, the authorities of the receiving country may not enter the consulate, the residence of the consul, or the residences of consular officials.

2. In case of fire or other calamity endangering the lives or property of citizens of the receiving country, or endangering the nearby buildings of the receiving country, such consent must be given as quickly as possible.

3. The receiving country is particularly responsible for taking all appropriate steps to guard against intrusion or damage to the consulate building and to residences of consular officials, also against disturbance of the peace or violation of the dignity of the consulate.

4. The consulate building, its internal equipment and property, and the consular means of transportation are exempt from any form of requisitioning. If it becomes necessary according to the laws of the receiving country for reasons of national defense or for public purposes to take over the consulate building, the authorities of the receiving country shall take all steps to avoid impeding the performance of consular duties and must promptly pay an appropriate compensation to the dispatching country.

5. The consulate building must not be used for activities incompatible with the duties of a consulate.

#### Article 29. Exemption of Property From Taxation

1. The dispatching country shall be exempt from levies and taxes of the receiving country regarding the following items:

- a. The consulate building and the residences of consular staff obtained by the dispatching country or its representative, and all related transactions and deeds;
- b. Equipment and means of transportation owned, leased, or acquired in any other form exclusively for the use of the consulate, and the acquisition of such properties.

2. The provisions of the preceding paragraph do not apply to charges for specially designated services.

#### Article 30. Inviolability of Consular Records

Records of the consulate shall be inviolable at any time and at any place.

#### Article 31. Freedom of Communications

1. The receiving country shall allow and ensure freedom of communications for the consulate for official purposes. To communicate with the dispatching government, with the embassy of the dispatching government, and with other consulates regardless of where they are located, the consulate may use all appropriate means of communication, including diplomatic couriers, consular

couriers, diplomatic pouches, consular pouches, or clear or coded telegrams. However, the consulate may install and use a wireless transmitter only with the permission of the receiving government.

2. Incoming and outgoing official documents of the consulate are inviolable. Incoming and outgoing official documents refers to all incoming and outgoing documents that relate to the affairs of the consulate and its duties.

3. Consular pouches are inviolate, and must not be opened or retained. If the authorities of the receiving country have strong reason to believe that a pouch contains articles other than those mentioned in paragraph 4 of this article, it must return the pouch to the place of its origin.

4. Consular pouches must be sealed. Consular pouches must bear outwardly distinguishable marks, and their content must be limited to incoming or outgoing official documents and articles exclusively for official use.

5. Consular couriers must be nationals of the dispatching country, and must not be permanent residents of the receiving country. Consular couriers must be in possession of official documents evidencing their status. Consular couriers shall enjoy the same privileges, facilities, and exemptions in the receiving country as diplomatic couriers.

6. Consular mailbags may be entrusted to captains of ships or aircraft of the dispatching country for transportation. Captains must have official documents stating the number of pouches carried, but will not be regarded as consular couriers. Through arrangements with the competent authorities of the receiving country, the consulate may send a consular official to directly and freely take delivery of consular pouches from captains of aircraft or ships.

#### Article 32. Freedom of Movement

The receiving country shall take necessary measures to ensure freedom of movement and travel for consular staff, except to areas to which entry is forbidden or restricted for reasons of national security or public interest.

#### Article 33. Regular Consular Fees

1. The consulate may collect in the receiving country regular consular fees or service charges according to the laws and regulations of the dispatching country.

2. Consular fees and service charges collected as per paragraph 1 of this article are exempt from all levies and taxes of the receiving country.

#### Article 34. Protection of Consular Officials

Consular officials are not subject to arrest or detention. The receiving country shall treat consular officials with due respect, and shall take appropriate measures to guard against any infringement of their persons, freedom, and dignity.

#### Article 35. Exemption of Consular Officials from Jurisdiction

1. Consular officials enjoy exemption from the jurisdiction of judicial and administrative organs of the receiving country, with exception in cases of the following civil suits:

a. Suits in connection with private immovable property located in the receiving country, however, not including immovable property occupied on behalf of the dispatching country for consular purposes;

b. Suits concerning inheritances, involving persons in their private capacities as executors of a will, administrators of estates, legatees, or beneficiaries of bequests;

c. Suits resulting from vocational or commercial activities engaged in outside of official duties in the territory of the receiving country;

d. Suits filed by a third party, claiming compensation for damages, caused by cars, ships, or aircraft in the receiving country.

2. Except in the cases listed in paragraph 1 of this article, the receiving country may not take enforcement action against consular officials, if enforcement action is taken in the cases listed in paragraph 1 of this article, it must be done without harming the person of the consular official or infringing on his right to inviolability of his residence.

#### Article 36. Exemption of Consular Working Personnel from Jurisdiction

1. Consular working personnel are exempt from judicial and administrative jurisdiction of the receiving country with regard to acts done in the performance of their duties.

2. The provisions of the preceding paragraph do not apply to civil suits mentioned in item d, paragraph 1, article 35.

#### Article 37. Notice of Detention or Arrest of Consular Working Personnel

If the receiving country detains or arrests a member of the consular working personnel, or files criminal charges against such a person, it shall immediately notify the consul.



#### Article 38. Testifying

1. Consular officials are not obliged to testify as witnesses.
2. Consular working personnel may be asked to appear and testify in judicial or administrative suits of the receiving country. Except in the cases of paragraph 3 of this article, members of the consular working personnel may not refuse to testify.
3. Consular working personnel are not obliged to testify on matters related with their duties, or to produce official and other documents related to their duties. Consular working personnel may refuse to testify in evaluation of the laws of the dispatching country. If they refuse such action, no enforcement measures must be taken against them.

#### Article 39. Exemption From Registration, Residence Permit, and Other Obligations

1. Consular staff shall be exempt from all obligations of registering as foreigners and obtaining residence permits, prescribed in the laws of the receiving country.
2. Consular staff must also be exempted from all forms of individual labor service, public service, and military service of the receiving country.

#### Article 40. Tax Exemptions of Consular Staff

1. Consular staff are exempt from all national and regional levies and taxes of the receiving country.
2. The provisions of the preceding paragraph do not apply to the following cases:
  - a. Indirect taxes usually included in purchase prices and service charges;
  - b. Levies and taxes on private immovable property located in the receiving country, excepting cases of item a, paragraph 1, article 29 of this treaty;
  - c. Estate tax, inheritance tax, or transfer tax, excepting cases of article 42 of this treaty;
  - d. Registration fees, law court fees, real estate tax and stamp tax for mortgages, excepting cases of article 29 of this treaty.

#### Article 41. Exemption From Customs Duty and Customs Inspection

1. The receiving country shall allow the following articles to be imported, according to its national laws, and shall exempt them from customs duty and related charges, however, exemption does not extend to storage, transportation, and similar service charges:
  - a. Articles and means of transportation for the official use of the consulate;

b. Personal belongings and household goods of consular officials;

c. Personal belongings of consular working personnel imported when first assuming their positions, including household equipment and articles.

2. The articles mentioned in items b and c of the preceding paragraph are to be limited to amounts directly needed by the persons in question.

3. Personal baggage of consular officials is exempt from customs inspection. However, if there are strong reasons to believe that the baggage contains articles other than those prescribed in item b of paragraph 1 of this article, or articles of which the law of the receiving country forbids importation, or articles subject to quarantine law controls, inspection may be carried out. Inspection of this nature shall be carried out in the presence of the consular official concerned or his representative.

#### Article 42. Estates of Consular Staff

Should a member of the consular staff or his family member die, the receiving country shall:

1. Allow the movable property of the deceased to be shipped out of the country, but excepting articles which had been obtained in the receiving country and which at the time of death were forbidden to be exported;
2. Must not collect estate tax or any form of levies and taxes with regard to any property the deceased had acquired during his lifetime in the receiving country.

#### Article 43. Privileges and Exemptions of Family Members

Family members of consular officials and consular working personnel enjoy the same privileges and exemptions as consular officials and consular working personnel, as the case may be, excepting those who are nationals or permanent residents of the receiving country.

#### Article 44. Personnel Not Eligible for Privileges and Exemptions

1. If consular working personnel are nationals of the receiving country, or though nationals of the dispatching country, are permanent residents of the receiving country, or are engaged in private remunerated trade or profession in the receiving country, they shall not enjoy the privileges and exemptions prescribed by this treaty, excepting the cases of paragraph 3 of article 38 of this treaty.
2. Family members of consular working personnel of the preceding paragraph do not enjoy the privileges and exemptions prescribed by this treaty.
3. Private service personnel do not enjoy the privileges and exemptions prescribed by this treaty.

**Article 45. Abandonment of Privileges and Exemptions**

1. The dispatching country may abandon any of the privileges and exemptions prescribed for consular personnel in articles 35 and 38 of this treaty, but abandonment must in each case be clearly expressed in a written note to the receiving country.

2. If consular staff, who according to this treaty enjoy exemption from jurisdiction, on their own initiative file a law suit, they may not claim exemption from jurisdiction if a countersuit is filed against them in the same matter.

3. Abandonment of the exemption from civil and administrative jurisdiction does not imply abandonment of exemption from the enforcement of a judicial decision. Abandonment of exemption from the enforcement of a judicial decision must be separately notified in writing.

**Article 46. Beginning and Termination of Privileges and Exemptions**

1. Consular staff begin to enjoy the privileges and exemptions prescribed by this treaty as soon as they enter the receiving country to assume their posts. For those already in the country, enjoyment of privileges and exemptions starts with their assumption of consular duties.

2. For family members, enjoyment of privileges and exemptions starts on the same day as for the consular staff whose family member they are. If the family member enters the receiving country later, or becomes a family member only later, the start of enjoyment of privileges and exemptions starts with the day the family member enters the receiving country or becomes family member of the consular staff.

3. If the services of a consular staff have been terminated, the privileges and exemptions for himself and his family members cease at the time they leave the receiving country, or after the lapse of a reasonable time that they would have needed to leave the country. If a family member ceases to be family member of a consular staff, privileges and exemptions cease accordingly, but if said person intends to leave the receiving country within a reasonable space of time, the person's privileges and exemptions may be extended to the time the person leaves the country.

4. If a member of the consular staff dies, the privileges and exemptions of his family members shall end when they leave the receiving country or after a reasonable space of time that they would have needed to leave the country.

5. Exemption from jurisdiction enjoyed by a member of the consular staff for actions in the performance of his duties in the receiving country is valid for an indefinite period of time.

**Article 47. Observance of the Laws of the Receiving Country**

1. Without impairing the privileges and exemptions prescribed in this treaty, personnel enjoying these privileges and exemptions are under obligation to observe the laws of the receiving country. They are also under obligation not to interfere in the internal politics of the receiving country.

2. All consular staff sent out from the dispatching country to perform consular duties must not engage in any other trade or profession besides performing their official duties.

**Article 48. Damage Insurance**

Means of transportation belonging to the consulate, consular staff, or their family members must be insured for third party liability.

**Chapter 5. Final Clauses**

**Article 49. Ratification, Validity, Termination**

1. This treaty has to be ratified; it shall come into force on the 30th day after exchange of instruments of ratification.

2. Instruments of ratification will be exchanged in Sofia.

3. This treaty shall continue in force unless one of the parties to the treaty gives written notice to the other party 6 months in advance of its intention to terminate the treaty.

This treaty was signed in Beijing on 6 May 1987, made out in duplicate, each copy written in Chinese and Bulgarian, each version to be of equal validity.

Wu Xueqian, plenipotentiary of the PRC

Petur Mladenov, plenipotentiary of the People's Republic of Bulgaria

9808

**Participation in Protection of Internationally Protected Officials**

40050302h Beijing ZHONGHUA RENMIN  
GONGHEGUO GUOWUYUAN GONGBAO [PRC  
STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 p 975

[Decision of the NPC Standing Committee on China's Participation in the "Convention on the Prevention and Punishment of Crimes of Violating Internationally Protected Officials, Including Diplomatic Envoys" (Adopted on 23 June 1987) (The Chinese Government's

letter of participation was handed to the Secretary General of the United Nations on 5 August 1987, making China's participation effective as from 4 September of that year)]

[Text] The Standing Committee of the 6th NPC decided at its 21st Session: The PRC participates in the "Convention on the Prevention and Punishment of Crimes of Violating Internationally Protected Officials, Including Diplomatic Envoys," and declares at the same time: The PRC has reservations as to Paragraph 1 of Article 13 of the Convention and will not be bound by the said paragraph.

9808

**Approval of Agreement Concerning Marine Satellite Organization**

40050302i Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 p 975

[State Council Decision on the Approval of the "Agreement on the Privileges and Exemptions of the International Marine Satellite Organization" (24 March 1987) (The Chinese Government handed its letter of approval to the British Government on 13 May 1987, making approval effective for China as on 12 June of that year)]

[Text] The State Council decided to approve the "Agreement on the Privileges and Exemptions of the International Marine Satellite Organization," signed on 28 May 1982 by Ke Hua [2688 5478], representing the PRC Government. Regarding Paragraph 4 of Article 4 of the "Agreement on the Privileges and Exemptions of the International Marine Satellite Organization" we are making the following reservation: We feel implementation of Paragraph 4 of Article 4 should conform to Chinese laws and regulations.

9808

**Approval to Conventions Regarding Nuclear Accidents**

40050302j Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese  
No 29, 30 Dec 87 p 976

[State Council Decision on the Approval of the "Convention on the Early Warning of Nuclear Accidents" and the "Convention on Emergency Assistance in Radiation and Nuclear Accidents" (16 April 1987) (On 14 September 1987, the Chinese Government handed its letter of approval of the "Convention on the Early Warning of Nuclear Accidents" and the "Convention on Emergency Assistance in Radiation and Nuclear Accidents" to the director general of the International Nuclear Energy Organization, making them effective for China on 14 October of the same year)]

[Text] The State Council decided to approve the "Convention on the Early Warning of Nuclear Accidents" and the "Convention on Emergency Assistance in Radiation and Nuclear Accidents," signed on 26 September 1987 in Vienna by Jiang Xinxiong [5592 7150], representing the PRC Government. As to the Convention on the Early Warning of Nuclear Accidents, the Chinese Government declares: "The Chinese Government will not be bound by the two procedures for resolving disputes, prescribed in Paragraph 2 of Article 11 of the said Convention." As to the "Convention on Emergency Assistance in Radiation and Nuclear Accidents," the Chinese Government declares: "First: In the event the serious culpability of an individual causes deaths, injuries, losses, or destruction, China will not apply Paragraph 2 of Article 10 of the said Convention. Second: China will not be bound by the two procedures for resolving disputes, prescribed in Paragraph 2 of Article 13 of the said Convention."

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**END OF**

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**DATE FILMED**

12 Sept, 1988